INVESTING IN LAC: UNLOCKING OPPORTUNITIES FOR INDIA

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Investing in LAC: Unlocking Opportunities for Indian Investors

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Executive Summary

The Latin America and Caribbean (LAC) region comprises of over 40 nations, spanning from Mexico in the north to Argentina in the south. The economies of the LAC region range from highly developed, such as Brazil and Mexico, to less developed, such as Haiti and Nicaragua. The region is significantly dependent on exports of commodities such as oil, minerals, and gems and jewellery.

Macroeconomic Scenario

The Gross Domestic Product (GDP) of the LAC region at constant 2015 prices experienced a stagnation during the last decade, growing from US$ 5.1 trillion in 2012 to US$ 5.6 trillion in 2021. The economy however is gradually bouncing back with the IMF estimates showing a growth of 3.5% for the year 2022. Overall, during 2012 to 2021, the GDP growth for LAC averaged 1%. The inflation in the LAC region averaged 6.2% during 2012 to 2021, much higher than the global CPI inflation which remained in the range of 2%-4% in most of the years, during the last decade.

In the last ten years, the total trade (combined exports and imports) in the LAC region has seen a slight rise, growing from US$ 2.2 trillion in 2012 to US$ 2.4 trillion in 2021. Exports have grown at a yearly average rate of 1.5%, rising from US$ 1.10 trillion in 2012 to US$ 1.19 trillion in 2021. Meanwhile, imports have grown at a slightly faster pace of 2.2%, with the figure rising from US$ 1.11 trillion in 2012 to US$ 1.23 trillion in 2021. It may be noted that the intra-regional trade of the LAC region is close to 15%. The US and China remain the top two most significant partners of LAC. The LAC region's share in total global exports stood at 5.4% in 2021 and the share in global imports was 5.5%, during the same year.

With respect to the investment, during 2012 to 2021, the LAC region received cumulative FDI amounting to US$ 1.5 trillion, a share of almost 10% in the global cumulative FDI during the same period, as per the UNCTAD. While the global FDI recorded an AAGR of 4.6% during 2012 to 2021, the FDI to LAC region fell at an average of (-) 1.2%, during 2012 to 2021. The top sectors receiving the global investment in LAC region were renewable energy, coal, oil & gas, metals, communications, and automotive OEM.

Additionally, the general government gross debt as a percent of GDP for the LAC region was recorded at 71.8% in 2021 and is estimated at 69.3% for 2022. However, this has increased from 48.3% in 2012. The general government gross debt as a percent of GDP increased for all major economies like Argentina, Brazil, Chile, Peru, and Colombia. It was over 80% for Argentina and over 93% for Brazil in 2021.

With respect to the consumer profile of the region, the LAC region falls in the range of upper-middle income regions with its GNI per capita being recorded at US$ 8067.7 in 2021. Some of the countries in high income category are Bahamas, Barbados, Uruguay, etc. On the other hand, countries like Argentina, Mexico, Brazil, Peru, Colombia, and Ecuador, fall under upper middle-income category.

Investment Potential in LAC

Many of the countries in Latin American and Caribbean (LAC) region of today have undergone a significant and irreversible transformation. Governments in the region have implemented changes such as market liberalization, reduced import tariffs, and the privatization of state-owned enterprises. They are also prioritizing the modernization and development of infrastructure to support regional growth.

Growing Economic Size and Rising Consumption Levels

The GDP of the LAC region reached US$ 5.6 trillion in 2021 and has increased by 1.6 times during the last two decades. Economies such as Chile have almost doubled their size during 2002 to 2021. Further, economies such as Peru (2.3 times), Colombia (2.02), Costa Rice (2.04), Panama (2.8), Dominican Republic (2.5), Bolivia (2.1), and Paraguay (2.04) have grown more than twice in size.

As far as the consumption power of the region is concerned, it may be noted that the LAC's GNI per capita has grown from US$ 3783 in 2002 to US$ 8068 in 2021 – a more than 2 times overall increase. The GNI per capita of select countries like Paraguay (4.1 times), Panama (3.5 times), Ecuador (3.4 times), Peru (3.3 times), and Costa Rica (3.3 times) has increased at impressive rates, during the last couple of decades.

India-LAC Trade Linkages

The total merchandise trade between India and LAC stood at just over US$ 2 billion in 2002. The trade has grown by almost 20 times in the last decades and was recorded at US$ 42.7 billion in 2021. India's trade with the LAC region has recorded an AAGR of over 21% during 2002 to 2021, much higher than the AAGR (14%) registered by India's total trade with the world, during the same period. In 2021, India had a trade deficit of almost US$ 6 billion with the LAC.

It may be noted that 4.7% of India's exports to world in 2021 went to the LAC region and this share has increased from 2.4% in 2002. On the other hand, 4.3% of India's imports were from LAC in 2021, up from 1.7% in 2002. Almost 20% of India's exports to LAC region consisted of vehicles in 2021. In terms of imports, more than 35% of India's imports from LAC were of mineral fuels and oils. While 85% of LAC's imports are from outside the LAC region, India's contribution to this is only 1.8%.

With respect to the Trade Complementarity Index (TCI), which indicates to what extent the export profile of the reporter country matches, or complements, the import profile of the partner country, it is noted that complementarity of India with the LAC region is 64.4% in 2021, which shows that there exist possibilities of Indian exports further tapping the LAC market. Within the LAC region, a high complementarity is noted with countries such as Dominican Republic (71%), Nicaragua (68.9%), Guatemala (69.5%), Colombia (65.3%), Ecuador (65%), etc.

India's Agreements in the LAC

MERCOSUR, which is a trading bloc in Latin America comprising of Brazil, Argentina, Uruguay, and Paraguay was formed in 1991. The India-MERCOSUR PTA was signed in 2004 and came into effect in 2009. The agreement aims to foster the expansion and strengthening of the existing ties between India and MERCOSUR by providing each other with fixed tariff preferences. The total trade between India and MERCOSUR bloc has increased from US$ 1.1 billion in 2002 to US$ 16.9 billion in 2021, recording an AAGR of 18%. Most of India's exports to MERCOSUR bloc go to Brazil (80.2%).

The India-Chile PTA was signed in 2006 and came into effect in 2007. While India has offered to provide fixed tariff preferences ranging from 10% to 50% on 178 tariff lines at the 8 digit level to Chile, the latter has offered India tariff preferences on 296 tariff lines at the 8 digit level with margin of preference ranging from 10% to 100%.

Other than the above stated agreements, India is already in negotiations with Peru for a trade agreement. The negotiations started in 2017 and six rounds of negotiations have already taken place.

Investment Opportunities in LAC: Target Economies

Engaging with LAC region is a key priority for India than ever before. It is important for India to explore more avenues, within and beyond manufacturing, to advance its engagement with the LAC region. The study has undertaken an analysis to identify 15 economies in LAC which offer potential for India to explore the LAC market, while undertaking a critical preview of the existing factors. The Study shortlists countries on the basis of factors like economic size, trade, FDI, etc. Relevant parameters provided with these 15 countries include India's exports to these 15 LAC countries, India's import share in these countries, GNI Per capita income of these countries, India's trade complementarity with these countries, and country ratings by Moody's.

Country	GDP (constant 2015 US$) in USD Billion	Cumulative FDI in USD Billion (2010-21)	Exports in USD Billion: 2021	India's Exports in USD Billion: 2021	India's share in imports: 2021	GNI PC (USD)	Trade Complementarity Index	Rating
Mexico	1206.9	382.2	494.6	4.2	1.2%	9590	55.9	**Baa2**
Brazil	1829.9	754.2	280.8	6.3	3.1%	7740	65.0	**Ba2**
Chile	275.2	196.4	92.9	1.1	1.4%	14780	64.3	**A2**
Argentina	568.1	107.9	77.8	1.2	2.2%	9960	60.5	**Ca**
Peru	217.0	83.3	56.3	0.9	2.2%	6460	65.7	**Baa1**
Colombia	330.6	149.8	40.5	1.3	2.3%	6190	65.3	**Baa2**
Ecuador	97.8	9.7	26.3	0.3	1.5%	5960	65.0	**Caa3**
Costa Rica	66.5	30.1	14.3	0.1	1.0%	12310	64.3	**B2**
Guatemala	75.1	16.0	13.6	0.5	2.0%	4940	69.5	**Ba1**
Panama	60.6	42.2	13.4	0.3	1.2%	13920	61.6	**Baa2**
Dominican Republic	93.5	31.0	11.8	0.3	1.3%	8100	71.0	**Ba3**
Bolivia	37.0	6.1	11.0	0.1	2.4%	3290	61.2	**B2**
Paraguay	42.0	4.9	10.5	0.2	1.5%	5740	59.4	**Ba1**
Uruguay	54.4	16.3	9.5	0.2	2.0%	16080	63.4	**Baa2**
Nicaragua	14.1	10.5	6.5	0.1	3.6%	1950	68.9	**B3**
LAC	**5564.2**	**1887.5**	**1195.5**	**18.3**	**1.8%**	**8067.7**	**64.4**	-

Source: ITC Trade Map; UNCTAD; Moody's; World Bank; India Exim Bank Research

Firm based review of Indian Companies in LAC

As part of this Study, Exim Bank undertook an exercise titled "India's Investment Potential in LAC: An Investors Survey". The survey focussed on Indian firms operating in LAC and was based on two parameters, one, the pre-investment considerations, which involve important factors that companies consider before venturing abroad, and secondly, the post-investment experience of these companies.

The select factors that were a part of survey under pre-investment considerations included resource availability, market availability, government policies, bureaucracy, etc. The responses were received on a scale of one to five, with five being the highest in the levels of importance. On similar lines, post-investment experience was also ranked from one to five, with five being the most favourable.

Select findings from the Survey are:

Pre-Investment Considerations

- 52.2% of the respondents attributed the highest level of importance to security and availability of raw materials before investing into a country.
- With respect to the cost of raw materials, 78.2% of the respondents believed this factor to be of high importance (4 and 5).
- Market size of host country is of high importance for the potential investors with 38.5% of respondents giving it the level of highest importance.
- As far as access to the third country markets is concerned, it is observed that this factor is important; however, the views of the respondents are divided on this.
- Attractive inward investment policies of the host country play a crucial role in inviting investments. Almost 70% of the responses are in the important category (4 and 5).
- Another major aspect is the repatriation which is also considered important (4 and 5) by 69% respondents.
- 43.5% of the respondents have assigned the highest level of importance to political stability factor before making an investment.
- Legal system is given high importance (4 and 5) by 88.3% of the respondents.
- Given that the LAC's financial markets are developing, the respondents do not think that it is a major factor impacting their decision to invest.

Post-Investment Experience

- On the post-investment experience front, LAC region scores fairly on the aspect of macroeconomy, where 18.2% of the respondents placed LAC in zone 5 (most favourable) and 36.4% placed LAC in zone 4 (favourable).
- Political stability on the other hand differs from country to country – however, around 13.6% respondents said that the political conditions are unfavourable.
- Further, land acquisition procedures are assigned most favourable (zone 5) only by 9.1% of the respondents.
- The LAC market has been favourable to Indian companies investing there in terms of product acceptability. This is largely in line with the expectation that LAC is a growing market, and its needs are similar to what India has seen or is presently experiencing. 56.5% of the respondents have termed product acceptability favourable (4 and 5).

- With respect to the revenue generation, 47.8% of the respondents have found LAC favourable (4 and 5) market.
- The findings from the survey point towards a significant scope for improvement in segments like labour laws, management practices, manpower quality, and tax regime.
- Of all the companies that intend to invest outside of India in the coming years, the survey reveals that joint venture is expected to be the most popular route for Indian companies.
- 80% of the respondents are of the view that time taken to receive the necessary approvals is a big challenge; however, only 45% of the respondents have experienced corruption and bribery challenge.
- 80% of the respondents feel that competition from China is a challenge and 90% feel that competition from developed countries is a challenge. This is because of the proximity of economies like the USA to the LAC region.
- However, with all the challenges existing, almost all the respondents are comfortable with the investment made in LAC.

Conclusion

In conclusion, the LAC (Latin America and Caribbean) region possesses a wealth of natural resources and is experiencing impressive economic growth, making it an increasingly important destination for investors seeking to tap into these opportunities. With its diverse population and economic potential, the region presents a significant opportunity for potential investors.

This Study aimed to understand the macroeconomic landscape of the LAC region, examining factors such as GDP growth, international trade, inflation, investment flows, and consumer profiles. Through a structured methodology, the Study identified 15 economies that exhibit significant potential for investment from various perspectives.

By focusing on these economies and the specific products or areas with potential, this Study provides valuable insights to interested companies looking to invest in the LAC region. It serves as a comprehensive resource that can help these companies gain a head start in their investment strategies.

Additionally, the Study acknowledges the importance of regional integration initiatives in the LAC region, such as Mercosur, the Pacific Alliance, and other trade agreements. These initiatives aim to foster economic cooperation, enhance market access, and promote investment within the region. Companies can leverage these frameworks to establish stronger business relationships and access a larger consumer base.

The LAC region presents a unique blend of opportunities and challenges, and this study serves as a guide for investors to navigate this complex landscape. By understanding the macroeconomic indicators and identifying potential investment areas, companies can make informed decisions that lead to successful ventures in the region.

Overall, the LAC region offers a promising investment landscape, and this Study provides the necessary insights and analysis for companies to capitalize on the opportunities it presents. By aligning their strategies with regional integration efforts and leveraging the region's resources and population growth, investors can contribute to the economic development and mutual growth of the LAC region and their own enterprises.

Chapter 1

Regional Overview: Latin America and Caribbean

The Latin America and Caribbean (LAC) region comprises of over 40 nations, spanning from Mexico in the north to Argentina in the south. The region is known for its rich cultural heritage, diverse geography, and economic disparities. LAC is the most urbanized region in the developing world, with over 80% of its population living in cities.

The economies of the LAC region range from highly developed, such as Brazil and Mexico, to less developed, such as Haiti and Nicaragua. The region is significantly dependent on exports of commodities such as oil, minerals, and gems and jewellery. As per the World Bank, the trade to GDP ratio for the LAC region was almost 50% in 2021.

In the recent years, the LAC region has made significant progress in reducing poverty and promoting economic growth. Many countries in the region have implemented reforms to improve the business environment and attract foreign investment.

The LAC region has also made strides in promoting regional integration, through alliances such as the Pacific Alliance and MERCOSUR.

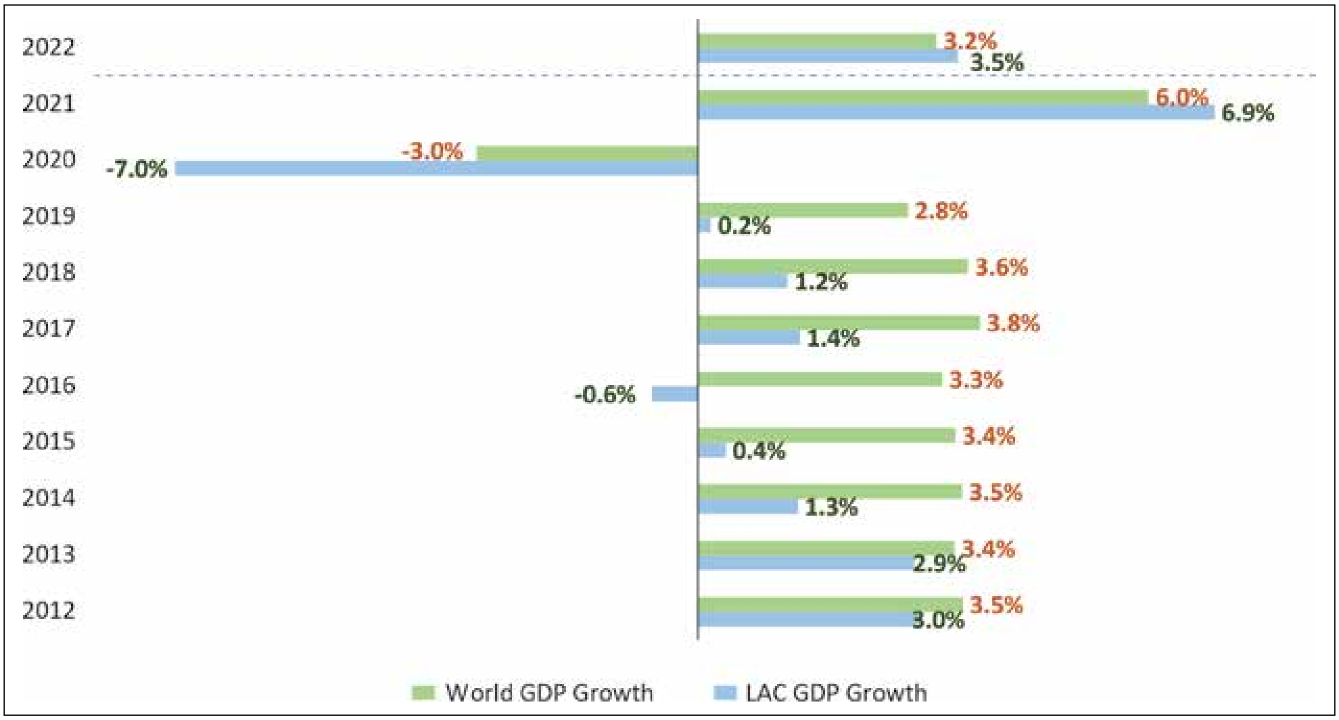
Macroeconomic Indicators

GDP

The Gross Domestic Product (GDP) of the LAC region at constant 2015 prices experienced a stagnation during the last decade, growing from US$ 5.1 trillion in 2012 to US$ 5.6 trillion in 2021. In 2012, the GDP growth of LAC was 2.95% and this was the highest growth year until 2020, during the last decade. In 2021, however, the growth was recorded at 6.9%, due to the low base effect of the pandemic year.

The economy is now bouncing back with the IMF estimates showing a growth of 3.5% for the year 2022. Overall, during 2012 to 2021, the GDP growth for LAC averaged 1%. In comparison, the global GDP growth averaged 3.1%, during the last decade.

Figure 1.1: During 2012-2021 the average GDP growth of LAC grew at a lesser rate than World growth

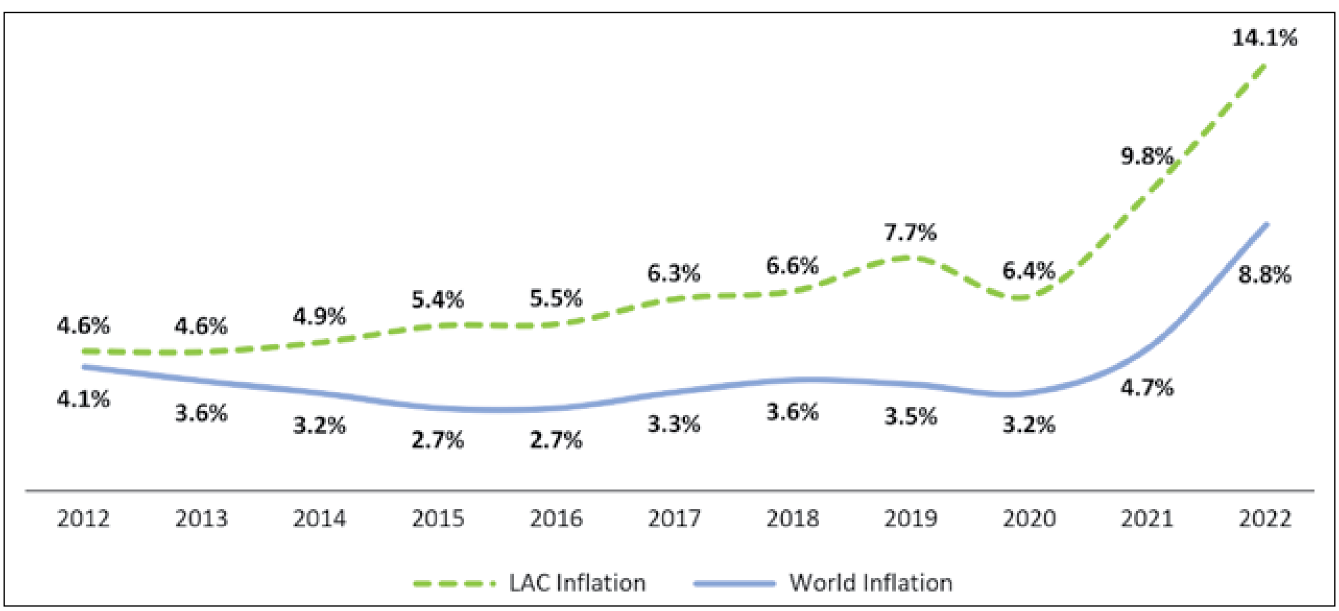


Source: IMF; India Exim Bank Research

Inflation

The inflation in the LAC region averaged 6.2% during 2012 to 2021, much higher than the global CPI inflation which remained in the range of 2%-4% in most of the years, during the last decade. As a result, the average global inflation during 2012-2021 was 3.5%. For 2022, however, the global inflation is estimated at 8.8% vis-à-vis the inflation in LAC at 14.1%.

Figure 1.2: Average Consumer Price Inflation higher in LAC as compared to World



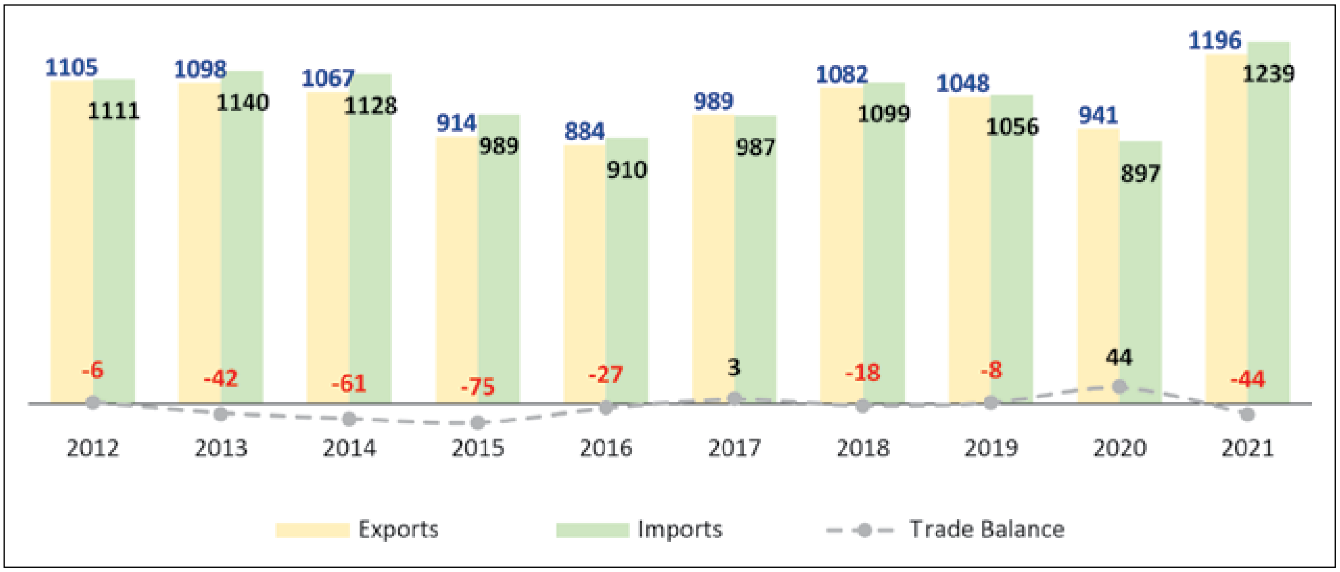
Source: IMF; India Exim Bank Research

Trade

In the last ten years, the total trade (combined exports and imports) in the LAC region has seen a slight rise, growing from US$ 2.2 trillion in 2012 to US$ 2.4 trillion in 2021. Exports have grown at a yearly average rate of 1.5%, rising from US$ 1.10 trillion in 2012 to US$ 1.19 trillion in 2021.

Meanwhile, imports have grown at a slightly faster pace of 2.2%, with the figure rising from US$ 1.11 trillion in 2012 to US$ 1.23 trillion in 2021. It may be noted that the intra-regional trade of the LAC region is close to 15%.

Figure 1.3: LAC's International Trade (US$ Billion)



Source: ITC Trade Map; India Exim Bank Research

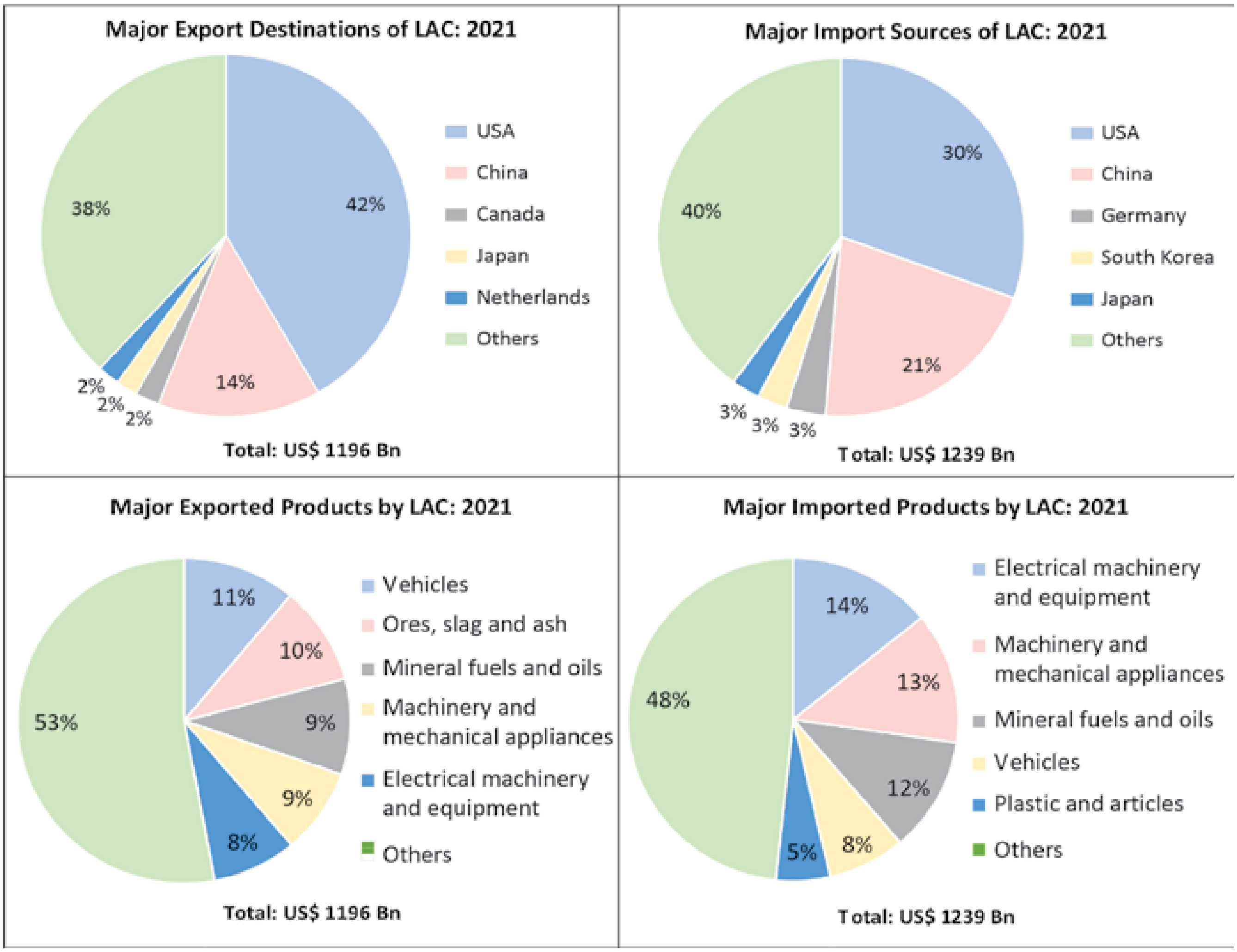
In terms of the trading partners of the LAC region, the US and China remain the top two most significant partners. In 2021, more than 40% of LAC's exports were sent to the US, while China received 14% of the region's exports. Likewise, the US was the source of 30% of LAC's imports, followed by China with 21%.

Additionally, 11% of LAC's exports are vehicles, followed closely by ores, slag, and ash at 10%, and mineral fuels and oils at 9%. When it comes to imports, electrical machinery and equipment represent the largest category at 14%, followed by machinery and mechanical appliances at 13%.

The LAC region's share in total global exports stood at 5.4% in 2021 and the share in global imports was 5.5%, during the same year. There are five major economic blocs in LAC region- MERCOSUR, Pacific Alliance, CAN, SICA and CARICOM.

- **MERCOSUR:** The Southern Common Market consisting of five countries in southern Latin America: Argentina, Brazil, Paraguay, Uruguay, and Venezuela. The region encompasses approximately 72% of the territory of South America, a combined population of over 298 million and GDP of almost US$ 3 trillion.
- **Pacific Alliance:** A Latin American trade bloc formed in 2011 among Chile, Colombia, Mexico, and Peru. Together the four countries have a combined population of about 231 million and GDP of US$ 2 trillion. India is an observer member of the Pacific Alliance.

Figure 1.4: Major Trading Partners and Traded Products for LAC



Source: ITC Trade Map; India Exim Bank Research

- **Andean Community (CAN):** A trade bloc consisting of four countries: Bolivia, Colombia, Ecuador, and Peru. The combined GDP stands at just under US$ 700 billion, with a population of 115 million.
- **SICA:** The Central American Integration System consisting of seven countries: Belize, Dominican Republic, Guatemala, El Salvador, Honduras, Nicaragua, Costa Rica, and Panama. The combined GDP of these countries stands at over US$ 360 billion, with a population of around 62 million.
- **CARICOM:** CARICOM is Caribbean Community consisting of 20 countries. The member states are Antigua and Barbuda, Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Haiti, Jamaica, Montserrat, St. Kitts and Nevis, Saint Lucia, St. Vincent and the Grenadines, Suriname, and Trinidad and Tobago. Its associate members are Anguilla, Bermuda, British Virgin Islands, Cayman Islands, and Turks and Caicos Islands. It is home to around 19 million people with a GDP of approximately US$ 100 billion.

Investment

As the LAC region's economies began to open up in the 1970s and 1980s, and public corporations were gradually divested, there was a significant increase in foreign direct investment (FDI) in the region. In the

1980s FDI inflows which had been averaging around US$ 6 billion per year rose to US$ 38 billion per year in 1990s. By the 2000s, the average had surpassed the US$ 80 billion mark.

According to UNCTAD statistics, during 2012 to 2021, the LAC region received cumulative FDI amounting to US$ 1.5 trillion, a share of almost 10% in the global cumulative FDI during the same period.

Box 1: Conducive FDI environment in LAC

The nations in the LAC region have taken various steps in the last few years to attract FDI in their respective countries.

One Stop Shop Initiatives: The One Stop Shop centers set up by the principal agencies for investment promotion provide investors with services to fast-track projects. They facilitate lowering the cost of doing business as well as making the processes easier. Several countries in LAC region have one Stop Shop centres for streamlining investments. For instance, ProColombia, a government agency, in charge of promoting foreign investment in Colombia offers strategic support for investors at all stages of the investment cycle. It has developed a one-stop shop with the support of Inter-American Development Bank (IADB) to be the single point of institutional contact for foreign investors. Similarly, in 2019, Government of Chile launched Unified System for Permits (SUPER), a new online single-window platform that brings together 182 license and permit procedures, simplifying the process of obtaining permits for investment projects.

Revised Regulations: To foster a more robust environment for FDI, many of the LAC countries have revised their existing laws. For instance, in 2020, Brazil approved a new bankruptcy law which modelled the United Nations Commission on International Trade Law (UNCITRAL) Model Law on International Commercial Arbitration and addressed issues such as favouring holders of equity over holders of debt. The new law facilitates judicial and extrajudicial resolution between debtors and creditors and accelerates reorganization and liquidation processes.

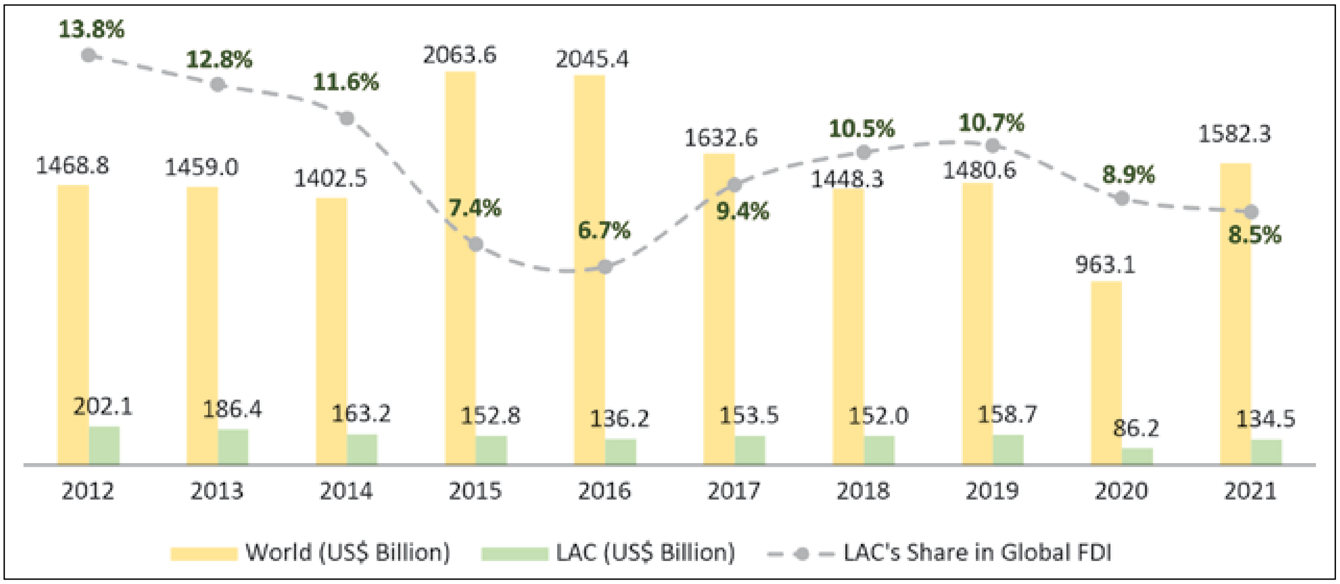
Incentives at Special Economic and Export Processing Zones: A host of LAC countries offer lucrative opportunities to set up businesses at the designated SEZs by offering incentives. In Panama, for example, Colon Free Zone and the Panama Pacifico Special Economic Area support the Panamanian government's effort to consolidate Panama as a logistic hub of the Americas. These zones offer companies cost savings and a strategic location to reach customers throughout Latin America. Due to its success, in 2020, Panamanian government approved five new free trade zones.

Repatriation of Profits: The ability of a firm to send foreign-earned profits or financial assets back to the firm's home country is an important factor for a conducive FDI environment. Some of the countries in LAC region including Chile, Peru, Uruguay, Paraguay, amongst others have minimal or no controls on repatriation of profits for foreign investors.

Source: India Exim Bank Research

While the global FDI recorded an AAGR of 4.6% during 2012 to 2021, the FDI to LAC region fell at an average of (-) 1.2%, during 2012 to 2021. This is because the FDI flows to the LAC region recorded four consecutive negative growth rates during 2012 to 2016. The possible factors responsible for these falls were economic slowdown coupled with weak commodity prices for LAC's principal exports, which ultimately weighed on the FDI flows to the region. As a result, its share in the global FDI fell from 13.8% in 2012 to 8.5% in 2021. The FDI to LAC region in 2021 recorded a growth of 56%; however, the flows remained 15% below the pre-pandemic level.

Figure 1.5: FDI Trends in the LAC Region



Source: UNCTAD; India Exim Bank Research

According to the UNCTAD World Investment Report 2022, the substantial growth in LAC in 2021 was upheld by robust inflows in conventional sectors like automotive production, financial and insurance services, and power supply, and fuelled by high investments in information and communication services in the area. South America[1] experienced a 74% increase in FDI, reaching US$ 88 billion in 2021, while Central America[2] (US$ 42 billion) and the Caribbean[3] (US$ 4 billion) saw FDI grow by 30% and 39%, respectively.

Further, the fDi markets database of Financial Times reveals that during 2012-2021, the top sectors receiving the global investment in LAC region were renewable energy (14.2%), coal, oil & gas (8.8%), metals (8.8%), communications (8.1%), and automotive OEM (7.1%).

Debt

On an average, the General government gross debt as a percent of GDP for the LAC region was recorded at 71.8% in 2021 and is estimated at 69.3% for 2022. However, this has increased from 48.3% in 2012.

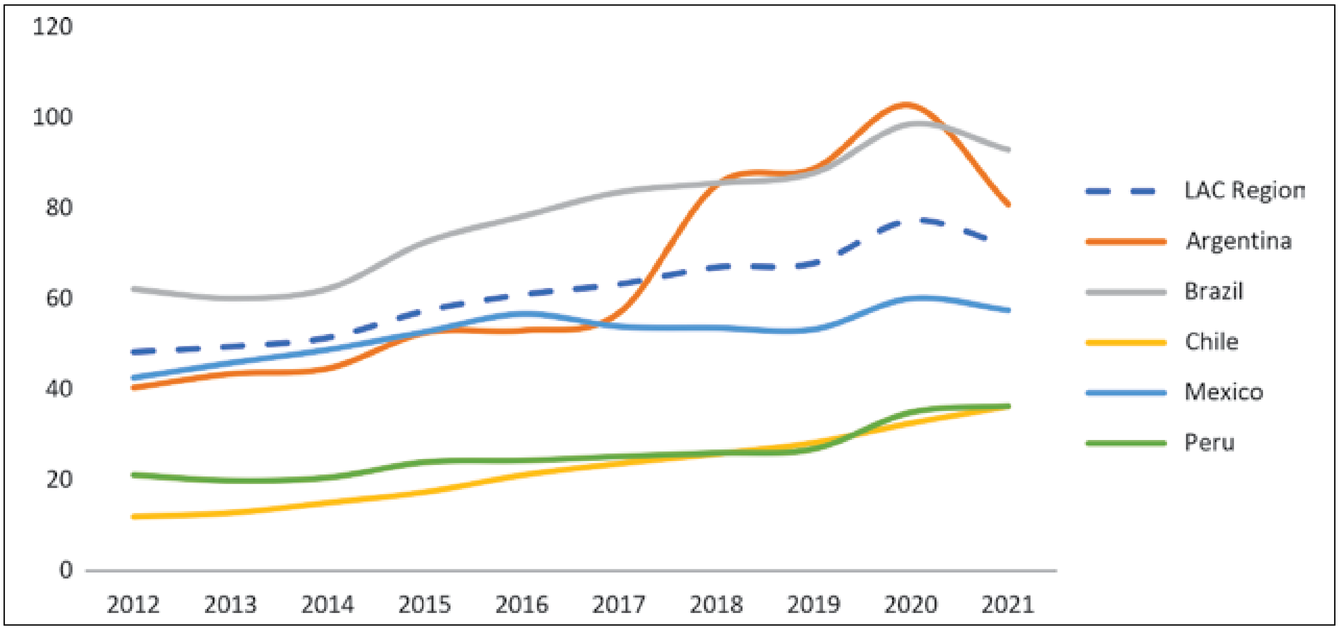
The general government gross debt as a percent of GDP increased for all major economies like Argentina, Brazil, Chile, Peru, and Colombia.

The general government gross debt as a percent of GDP was over 80% for Argentina and over 93% for Brazil in 2021. The same for Chile (36.3%), Mexico (57.6%), and Peru (36.4%) was within the manageable levels.

It may be noted that a high general government gross debt as a % of GDP can indicate that a country's government is heavily indebted, which could potentially limit its ability to invest in infrastructure, social programs, and other public services alike.

[1] Countries such as Brazil, Argentina, Chile, Peru, and Colombia
[2] Economies such as Mexico, Panama, Guatemala, Belize, and Nicaragua
[3] Economies such as Dominican Republic, Bahamas, Barbados, Cuba, Haiti, and Jamaica

Figure 1.6: General Government Gross Debt as a % GDP



Source: IMF; India Exim Bank Research

Consumer Profile

The economic structure and income level of a country can play a significant role in determining whether another country would want to invest in it. Countries with higher income levels generally have more disposable income, leading to higher levels of consumption and demand for goods and services. This can make them attractive markets for foreign investors.

As per the World Bank classification, low-income economies are defined as those with a GNI per capita, calculated using the World Bank Atlas method, of US$ 1,085 or less in 2021; lower middle-income economies are those with a GNI per capita between US$ 1,086 and US$ 4,255; upper middle-income economies are those with a GNI per capita between US$ 4,256 and US$ 13,205; high-income economies are those with a GNI per capita of US$ 13,205 or more.

Currently, the LAC region falls in the range of upper-middle income regions with its GNI per capita being recorded at US$ 8067.7 in 2021. Some of the countries in high income category are Bahamas (US$ 26490), Barbados (US$ 16900), Uruguay (US$ 16080), Trinidad and Tobago (US$ 15000), Chile (US$ 14780), and Panama (US$ 13920). On the other hand, countries like Argentina (US$ 9960), Mexico (9590), Brazil (US$ 7740), Peru (US$ 6460), Colombia (US$ 6190), and Ecuador (US$ 5960), fall under upper middle income category. Bolivia (US$ 3290) falls in the lower middle income category.

Scope of the Study

The following chapters of the Study aim to pinpoint nations that are significant for Indian investments. It delves into comprehending the economic status of these countries, including trade, and identifying lucrative sectors for investment. Moreover, the Study emphasizes the survey results conducted among Indian companies that intend to invest or have already invested in the LAC region.

Chapter 2

The LAC Region: A Key Investment Opportunity

The Latin American and Caribbean (LAC) region of today has undergone a significant and irreversible transformation. Governments in the region have implemented changes such as market liberalization, reduced import tariffs, and the privatization of state-owned enterprises. They are also prioritizing the modernization and development of infrastructure to support regional growth.

Additionally, LAC nations have re-evaluated their export capabilities and recognize the benefits of doing business with India. They are also looking at India for affordable imports. The India-LAC economic relationship has been growing in recent years. LAC is an important region for India, as it is rich in natural resources and has a large market for Indian goods and services. India, in turn, offers a large market for LAC products and services.

Growing Economic Size and Rising Consumption Levels

The GDP of the LAC region reached US$ 5.6 trillion in 2021 and has increased by 1.6 times during the last two decades. Various economies in the region have in fact, outperformed the region's average. Economies such as Chile have almost doubled their size during 2002 to 2021. Further, economies such as Peru (2.3 times), Colombia (2.02), Costa Rice (2.04), Panama (2.8), Dominican Republic (2.5), Bolivia (2.1), and Paraguay (2.04) have grown more than twice in size, during the last two decades.

The LAC region has recorded an average annual growth rate (AAGR) of 2.3% in its GDP during 2002 to 2021. Countries like Chile (3.7%), Peru (4.7%), Colombia (3.8%), Panama (5.6%), amongst others, have been at the forefront of the region's growth.

As far as the consumption power of the region is concerned, it may be noted that the LAC's GNI per capita has grown from US$ 3783 in 2002 to US$ 8068 in 2021, and currently, is in the bracket of upper middle income region. On the other hand, countries like Chile, Panama, and Uruguay feature in the list of high income regions. The GNI per capita of select countries like Paraguay (4.1 times), Panama (3.5 times), Ecuador (3.4 times), Peru (3.3 times), and Costa Rica (3.3 times) has increased at impressive rates, during the last couple of decades.

FDI: Potential for India

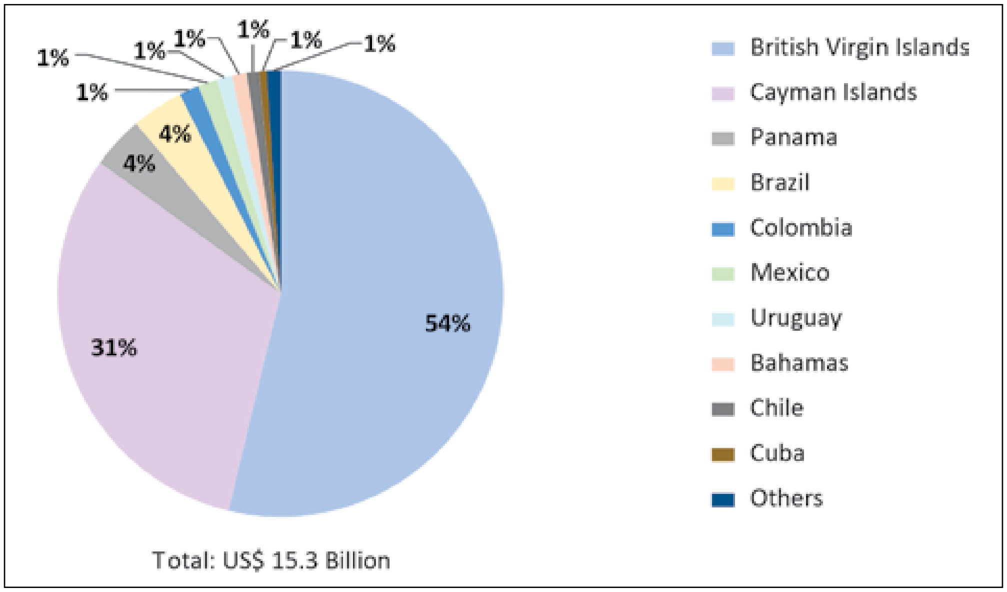
In the last two decades, that is, during 2002 to 2021, the world has received over US$ 27 trillion of FDI. Out of this, over 9% has gone into the LAC region. While the FDI to the world grew at an average of 8.5% annually, during this period, the same to LAC recorded an AAGR of 9.5%.

Some of the countries with high cumulative FDI and impressive AAGR in the last two decades include Brazil (Total FDI during 2002 to 2021: US$ 938.6 billion and AAGR: 17.8%), Chile (US$ 267.3 billion and 19.8%), Argentina (US$ 146.8 billion and 31.4%), and Colombia (US$ 201.3 billion and 19.8%). Further, countries like Ecuador (AAGR of 31.8%), Costa Rica (11.3%), and Guatemala (25.5%) have shown high potential.

As far as India's investment in LAC region is concerned, during FY 01 to FY 22, India has invested over US$ 15 billion in LAC region, as against India's total overseas direct investment (ODI) of US$ 259.4 billion, during the same period. LAC region's share in India's total ODI during this period is 5.9%. This is much lower than the LAC's (9.3%) share in the global FDI.

Further, it may be noted that almost 89% of India's ODI to the LAC region has gone to the British Virgin Islands (53.8%), Cayman Islands (31.2%), and Panama (3.8%), due to their tax haven status. Another 3.8% has gone into Brazil.

Figure 2.1: India's Overseas Direct Investment to LAC Region (FY 01 to FY 22)



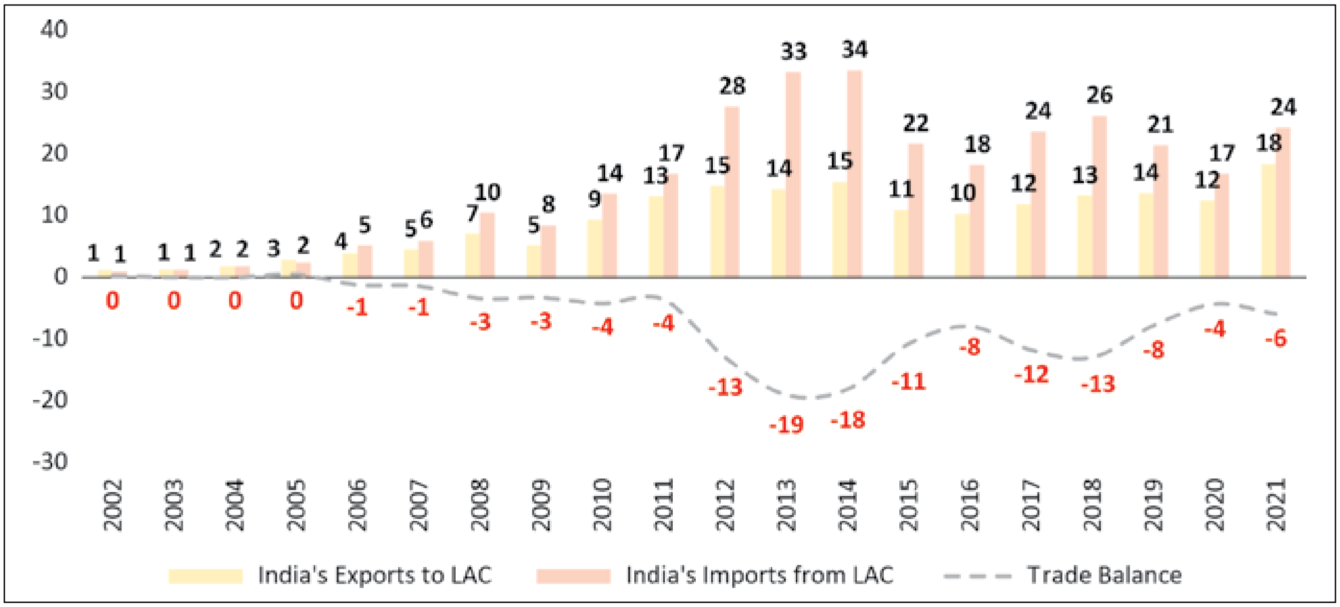
Source: Ministry of Finance; India Exim Bank Research

As per the fDi markets, some of the industries where Indian companies have announced investments in the last two decades include metals, coal, oil & gas, automotive OEM, software & IT services, financial services, renewable energy, amongst others.

Trade Linkages: India and LAC

India-LAC trade relations have grown significantly in the last two decades. The total merchandise trade between the two regions stood at just over US$ 2 billion in 2002. The trade has grown by almost 20 times in the last decades and was recorded at US$ 42.7 billion in 2021. India's trade with the LAC region has recorded an AAGR of over 21% during 2002 to 2021, much higher than the AAGR (14%) registered by India's total trade with the world, during the same period. In 2021, India had a trade deficit of almost US$ 6 billion with the LAC.

Figure 2.2: India's Trade with LAC

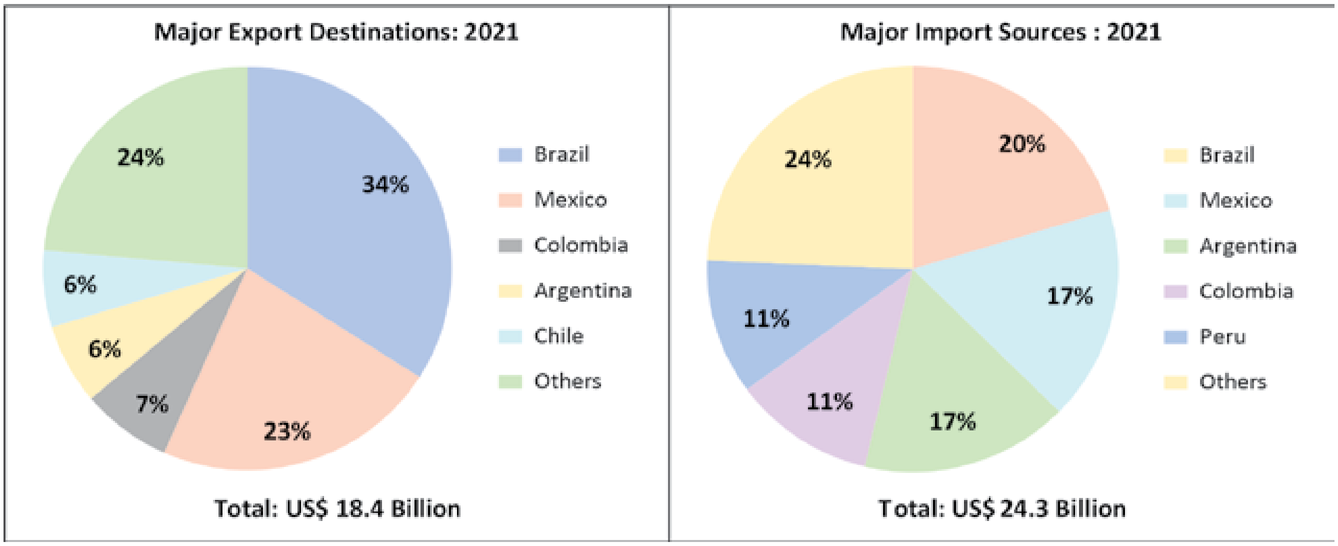


Source: ITC Trade Map; India Exim Bank Research

It may be noted that 4.7% of India's exports to world in 2021 went to the LAC region and this share has increased from 2.4% in 2002. On the other hand, 4.3% of India's imports were from LAC in 2021, up from 1.7% in 2002.

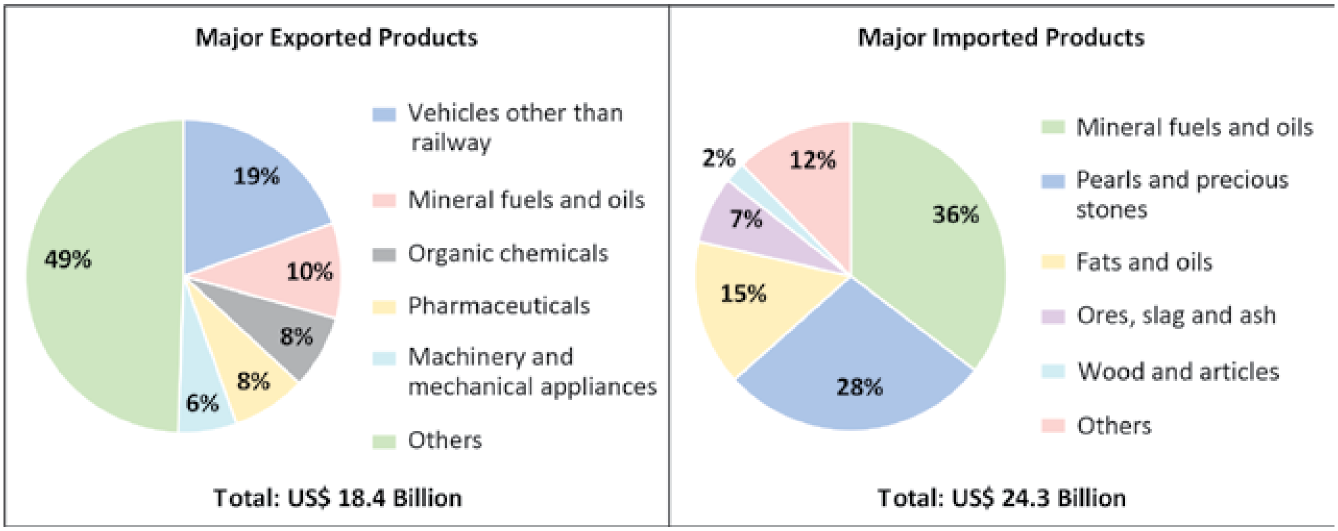
With respect to India's trading partners in LAC region, almost 57% of India's exports go to Brazil and Mexico, with other important destinations being Colombia, Argentina, Chile, and Peru. Further, on import front, one-fifth of India's imports from LAC are sourced from Brazil. And countries like Mexico, Argentina, Colombia, and Peru account for double-digit import shares. Bolivia (8.1%) and Chile (5%) are also important sources.

Figure 2.3: India's Major Trading Partners in LAC Region



Source: ITC Trade Map; India Exim Bank Research

Figure 2.4: India's Major Traded Products with the LAC Region



Source: ITC Trade Map; India Exim Bank Research

As far as India's traded products with the LAC region are concerned, almost 20% of India's exports to LAC region consisted of 'vehicles other than railway' in 2021. Within the vehicles category, over 46% exports were of motor cars, followed by 25% for motorcycles. Other important products include minerals fuels and oils, organic chemicals, pharmaceuticals, etc.

In terms of imports, more than 35% of India's imports from LAC were of mineral fuels and oils in 2021 and another 28% were of pearls and precious stones. For crude oil, Mexico, Colombia, and Brazil are important Indian partners. Under pearls and precious stones, almost all imports are accounted by gold, with Peru, Bolivia, and Brazil being important partners.

As specified in the previous chapter, the intra-regional trade for the LAC region is close to 15% only. The number for regions like ASEAN (21.6%), USMCA (almost 50%), and EU 27 (almost 60%) is much higher. While 85% of LAC's imports are from outside the LAC region, India's contribution to this is only 1.8%.

Trade Complementarity Index

Trade Complementarity Index (TCI) can provide useful information on prospects for intraregional trade; TCI shows how well the structures of a country's imports and exports match[4]. The TC between countries k and j is defined as:

$$TC_{ij} = 100\ (1 - \text{sum}\ (|m_{ik} - x_{ij}|\ /\ 2))$$

Where x_{ij} is the share of good i in global exports of country j and m_{ik} is the share of good i in all imports of country k. The index is zero when no goods are exported by one country or imported by the other and 100 when the export and import shares exactly match.

The complementarity of India with the LAC region was 64.4% in 2021, which shows that there exist possibilities of Indian exports further tapping the LAC market. Within the LAC region, a high complementarity is noted

[4] WITS, World Bank

with countries such as Dominican Republic (71%), Nicaragua (68.9%), Guatemala (69.5%), Colombia (65.3%), Ecuador (65%), etc[5].

However, in comparison, India's complementarity with Africa remains higher at 71.7%, EU 27 at 67.8%, and Middle East at 71.2%.

Table 2.1: India's Trade Complementarity Index (TCI) with Select Regions

Region	TCI value
LAC	64.4%
Africa	71.7%
ASEAN	62.5%
EU-27	67.8%
Middle East	71.2%
USA	59.2%
UK	67.6%

Source: ITC Trade Map; India Exim Bank Research

Agreements in the LAC Region

During the past two decades, trade has played a crucial role in driving the rapid growth of the global economy, by enabling economies to access resources beyond their geographic boundaries. Trade agreements of India have allowed the Indian businesses to access new markets and export their goods and services, boosting India's exports and foreign exchange earnings. In LAC as well, India has a few trade arrangements.

India-MERCOSUR PTA

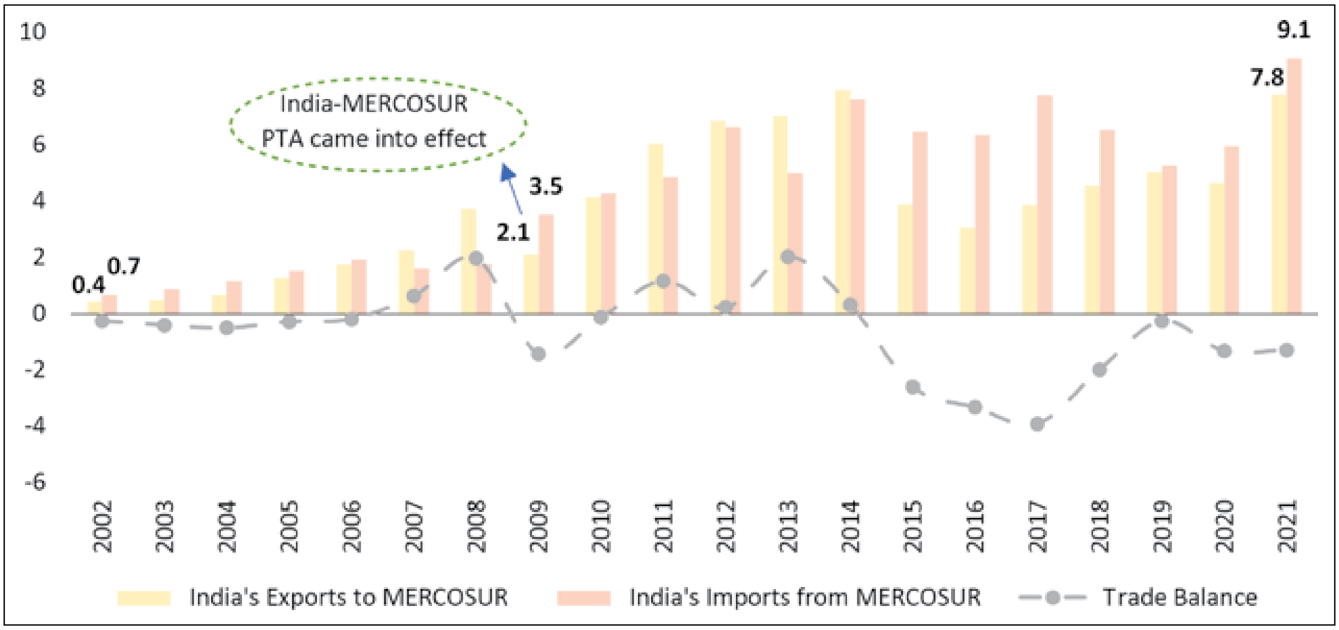
MERCOSUR, which is a trading bloc in Latin America comprises of Brazil, Argentina, Uruguay, and Paraguay. The bloc was formed in 1991 with the objective to promote free trade, and people among the countries, ultimately leading to regional integration.

The India-MERCOSUR PTA was signed in 2004 and came into effect in 2009. The agreement aims to foster the expansion and strengthening of the existing ties between India and MERCOSUR by providing each other with fixed tariff preferences, with the aim of promoting trade and eventually establishing a free trade area between the two parties[6].

The total trade between India and MERCOSUR bloc has increased from US$ 1.1 billion in 2002 to US$ 16.9 billion in 2021, recording an AAGR of 18%. Since, the agreement has come into effect, the AAGR has been recorded at 12.7%. While India maintains a trade deficit with the bloc, its exports, since the agreement has come into effect, have recorded an AAGR of 17.8%, vis-à-vis the import AAGR at 11.2%.

[5] High complementarity indices may be misleading if the countries are geographically distant, or if the size difference in the economies is large (i.e., a match in percentage terms does not imply a match in levels).
[6] Ministry of Commerce and Industry, Government of India

Figure 2.5: India-MERCOSUR Trade (in US$ Billion)



Source: ITC Trade Map; India Exim Bank Research

It may be noted that MERCOSUR's share in India's total exports has increased from 0.9% in 2002 to 1.2% in 2009 to 2% in 2021. Most of India's exports to MERCOSUR bloc go to Brazil (80.2%), followed by Argentina (15.2%), Paraguay (2.7%), and Uruguay (1.9%).

India-Chile PTA

The India-Chile PTA was signed in 2006 and came into effect in 2007. While India has offered to provide fixed tariff preferences ranging from 10% to 50% on 178 tariff lines at the 8 digit level to Chile, the latter has offered India tariff preferences on 296 tariff lines at the 8 digit level with margin of preference ranging from 10% to 100%. India has offered tariff concessions on products such as meat and fish products, chemicals, wood & plywood, leather products, etc. Chile's offers consists of agricultural products, chemicals & pharmaceuticals, textiles & clothing, etc.

Other Developments

Other than the above stated agreements, India is already in negotiations with Peru for a trade agreement. The negotiations started in 2017 and six rounds of negotiations have already taken place. Further, India also has a bilateral investment treaty with Trinidad & Tobago and agreement on the promotion and protection of investments with Mexico.

Identifying Potential Countries in LAC Region

Engaging with LAC region is a key priority for India than ever before. It is important for India to explore more avenues, within and beyond manufacturing, to advance its engagement with the LAC region. The Study has undertaken an analysis to identify 15 economies in LAC which offer potential for India to explore the LAC market, while undertaking a critical preview of the existing factors.

Methodology

1. Top 25 LAC countries by economic size (2021 data)
2. Top 20 which have received the highest cumulative FDI (2010 to 2021)
3. Top 15 LAC exporters amongst these 20 countries
4. Relevant parameters provided with these 15 countries include India's exports to these 15 LAC countries, India's import share in these countries, GNI Per capita income of these countries, India's trade complementarity with these countries, and country ratings by Moody's.

Table 2.2: Target Economies in LAC for India

Country	GDP (constant 2015 US$) in USD Billion	Cumulative FDI in USD Billion (2010-21)	Exports in USD Billion: 2021	India's Exports in USD Billion: 2021	India's share in imports: 2021	GNI PC (USD)	Trade Complementarity Index	Rating
Mexico	1206.9	382.2	494.6	4.2	1.2%	9590	55.9	Baa2
Brazil	1829.9	754.2	280.8	6.3	3.1%	7740	65.0	Ba2
Chile	275.2	196.4	92.9	1.1	1.4%	14780	64.3	A2
Argentina	568.1	107.9	77.8	1.2	2.2%	9960	60.5	Ca
Peru	217.0	83.3	56.3	0.9	2.2%	6460	65.7	Baa1
Colombia	330.6	149.8	40.5	1.3	2.3%	6190	65.3	Baa2
Ecuador	97.8	9.7	26.3	0.3	1.5%	5960	65.0	Caa3
Costa Rica	66.5	30.1	14.3	0.1	1.0%	12310	64.3	B2
Guatemala	75.1	16.0	13.6	0.5	2.0%	4940	69.5	Ba1
Panama	60.6	42.2	13.4	0.3	1.2%	13920	61.6	Baa2
Dominican Republic	93.5	31.0	11.8	0.3	1.3%	8100	71.0	Ba3
Bolivia	37.0	6.1	11.0	0.1	2.4%	3290	61.2	B2
Paraguay	42.0	4.9	10.5	0.2	1.5%	5740	59.4	Ba1
Uruguay	54.4	16.3	9.5	0.2	2.0%	16080	63.4	Baa2
Nicaragua	14.1	10.5	6.5	0.1	3.6%	1950	68.9	B3
LAC	**5564.2**	**1887.5**	**1195.5**	**18.3**	**1.8%**	**8067.7**	**64.4**	**-**

Chapter 3

Evaluating the Investment Opportunities in Select Countries of LAC Region

The Latin America and Caribbean (LAC) region is one of the most diverse and dynamic regions in the world, with significant potential for economic growth and development. The region is home to a diverse range of countries, each with its own unique set of economic, social, and political challenges.

Chapter 2 of this study has already shortlisted 15 countries in the LAC region based on various economic parameters such as economic size, foreign direct investment (FDI), exports, and others. In this chapter, the study will evaluate the economic potential and investment opportunities of these 15 shortlisted countries in detail.

The evaluation is based on various factors such as trade, economy, potential sectors for investment, and other relevant indicators. The analysis will be conducted to provide a comprehensive understanding of the economic potential of each country and to identify the opportunities and challenges that each country presents for investors and businesses.

1. Mexico

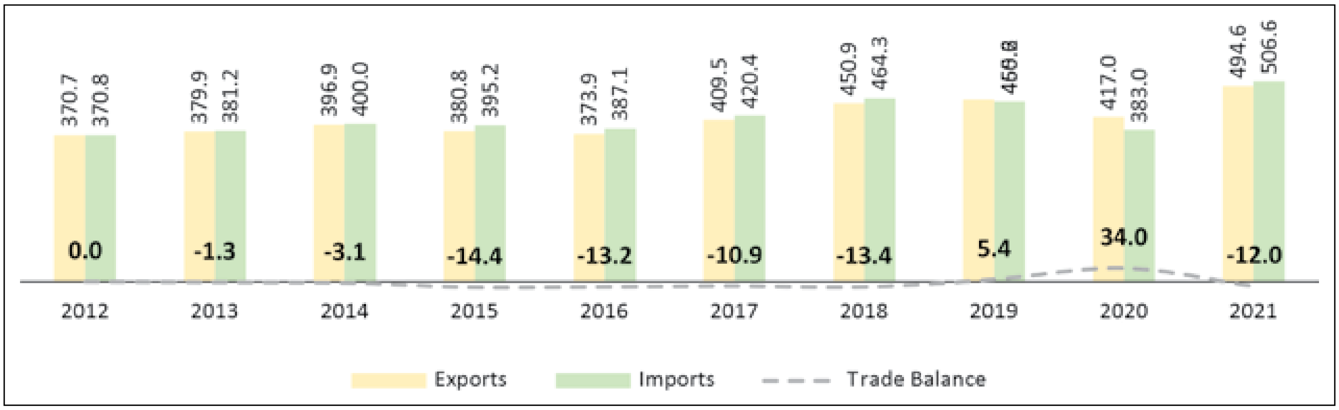
As per the World Bank, Mexico was the 15th largest economy in the world in 2021. Mexico's GDP at constant 2015 USD was recorded at US$ 1.3 trillion in 2021. Mexico's contribution to global GDP is 1.4% and its contribution to LAC's economy is almost 22%. During 2012 to 2021, the average GDP growth registered by Mexico was 1.2%.

The inflation in Mexico averaged 4.5% during 2012 to 2021 and in 2022, the inflation was estimated at 8%. The general government debt as a percent of GDP is expected to remain below 60%, as per IMF. Further, the unemployment rate in Mexico was estimated at 3.4% in 2022.

Trade

During 2012 to 2021, Mexico's exports have increased at an AAGR of 3.6%, growing from US$ 370.7 billion in 2012 to US$ 494.6 billion in 2021. The imports have grown at even a faster rate of 4.2%. Mexico had a marginal trade deficit of (-) US$ 12 billion in 2021.

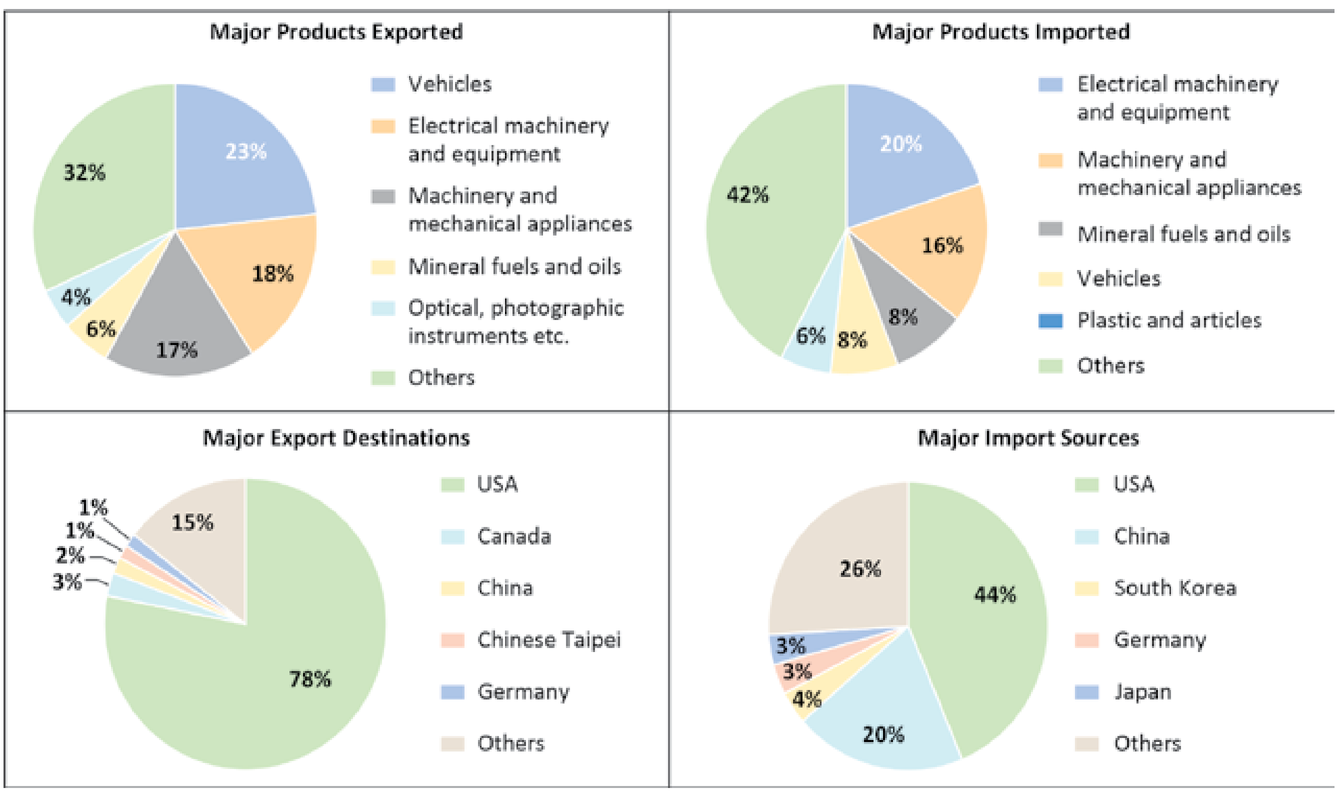
Figure 3.1: Mexico's International Trade (in US$ Billion)



Source: ITC Trade Map; India Exim Bank Research

Over 23% of Mexico's exports were accounted by vehicles (HS 87) and one-fifth of Mexico's imports were of electrical machinery and equipment. With respect to the Mexico's trading partners, it may be noted that more than three-fourths of Mexico's exports go to USA and almost 44% imports are sourced from USA. It is interesting to note that there is no LAC country in the top five trading partners of Mexico.

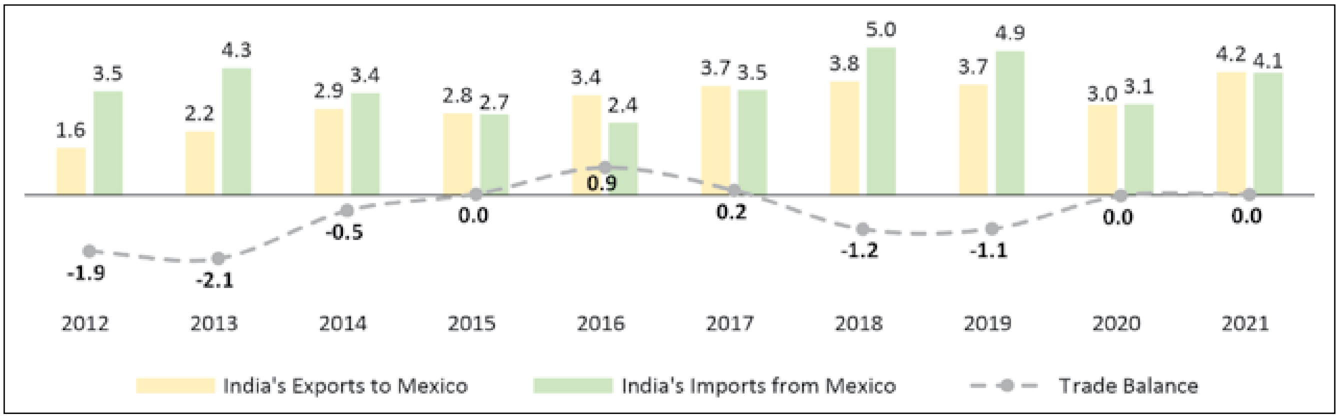
Figure 3.2: Major Traded Products and Trading Partners of Mexico: 2021



Source: ITC Trade Map; India Exim Bank Research

With respect to India's trade with Mexico, it is important to observe that during the last decade, India's total trade with Mexico has increased from US$ 5.1 billion to US$ 8.3 billion, thereby recording an AAGR of 7.6%. India's exports to Mexico have grown at a much faster rate of 12.9% than the imports from Mexico (5.9%). As a result, India has been able to narrow down its deficit to almost zero, from (-) US$ 1.9 billion, a decade ago.

Figure 3.3: India's Trade with Mexico (in US$ Billion)



Source: ITC Trade Map; India Exim Bank Research

Today, Mexico's share in India's exports is 1.1%, from 0.6%, a decade ago. On the other hand, Mexico's share in India's imports has remained almost stable at 0.7%. India's exports to Mexico majorly consists of vehicles (HS 87) (33.4%), aluminium and articles (10.7%), and organic chemicals (9.5%). Over 80% of India's imports from Mexico consist of mineral fuels and oils.

Opportunities and Investment Climate

As per the UNCTAD, over one-fifth of FDI into the LAC has gone into Mexico, during 2010 to 2021. Further, as per Ministry of Finance, Government of India, during the last two decades (FY 01 to FY 22), India's overseas direct investment to Mexico amounts to US$ 213 million, which consists of around 1.4% of India's total ODI in the LAC region. The data from fDi markets of Financial Times shows that India's announced investments has mostly been in the sectors like software & IT services, automotive components, automotive OEM, plastics, healthcare etc. In the past, companies like TCS, Infosys, Hexaware, Dr. Reddy's Laboratories, Parle, Hero Motocorp etc. have already invested in the Mexican market.

Mexico is rated Baa2 (lower medium grade) by Moody's and has been ranked 126 out of 180 in corruption perception index by Transparency International. The country is an emerging market with many investment opportunities, given that it provides the access to the US and Canadian market through USMCA as well as other LAC markets. The robust manufacturing sector of Mexico along with low labour costs provides can incentivize Indian businesses to set up operations in Mexico. Automotive, aerospace, electronics, and energy could be some of the sectors to explore in Mexico. The popularity of Mexico as a tourist destination also provides the opportunity for Indian hotels to expand.

India's trade complementary index (TCI) with Mexico was 55.9% in 2021, indicating the kind of structural alignment in India's exports and Mexico's imports. It may be noted that in 2019, the Government of Mexico (GOM) dissolved ProMexico, a former trade and investment promotion agency. As a replacement, the General Directorate for Global Investment (GDGI) was established in June 2021 under the Secretariat of Foreign Affairs (SRE), which took on many of ProMexico's previous responsibilities.

With respect to Mexico's agreements, it is observed that Mexico has signed Free Trade Agreements (FTAs) with 50 countries, including the USMCA and FTAs with the European Union, European Free Trade Area, Japan, Israel, 10 countries in Latin America, and the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), which includes 11 countries.

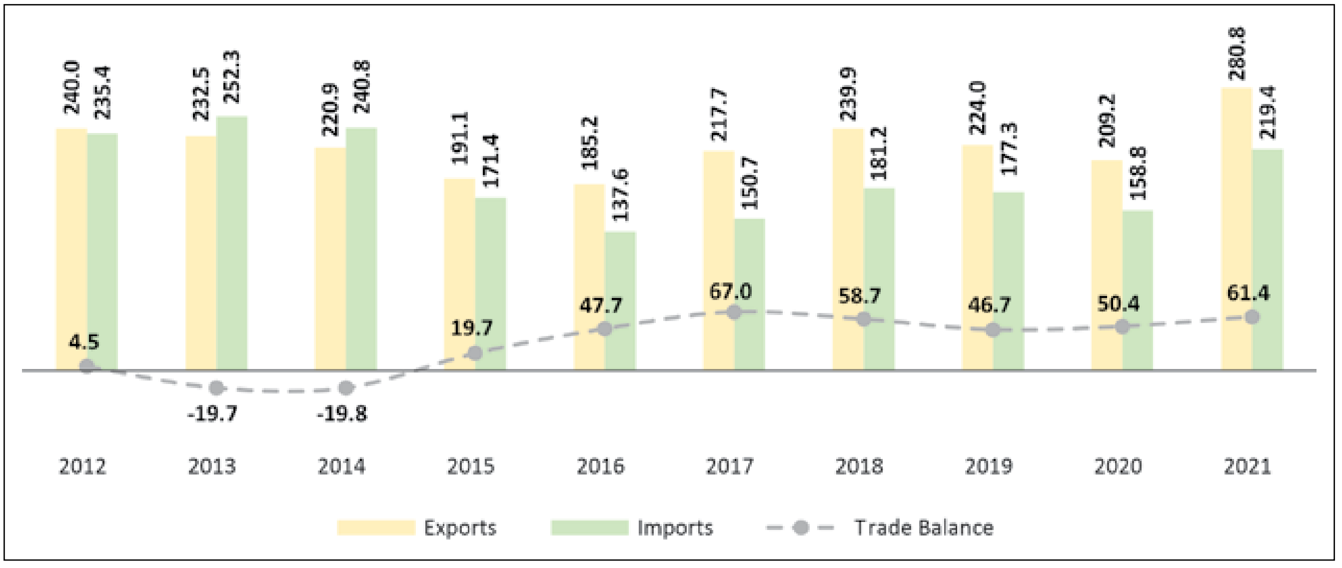
2. Brazil

According to the World Bank, Brazil ranked as the world's 9th largest economy in 2021, with a GDP of US$ 1.8 trillion at constant 2015 USD. Brazil accounts for 2.1% of global GDP and contributes nearly 33% to the economy of LAC region. Over the period of 2012 to 2021, Brazil's average GDP growth was only 0.2%, while inflation averaged 5.8%. In 2022, inflation was estimated to be 9.4%. Additionally, Brazil's general government debt as a percentage of GDP has risen from 62.2% in 2012 to 93% in 2021. Furthermore, the estimated unemployment rate in Brazil was close to 10% in 2022.

Trade

Brazil has a surplus of over US$ 60 billion in its trade with the world. The exports from Brazil have recorded an AAGR of 2.7%, during the last decade, reaching US$ 280.8 billion in 2021. On the other hand, its imports grew by only 1%, during the same period. Brazil's total merchandise trade crossed US$ 500 billion mark in 2021.

Figure 3.4: Brazil's International Trade (in US$ Billion)



Source: ITC Trade Map; India Exim Bank Research

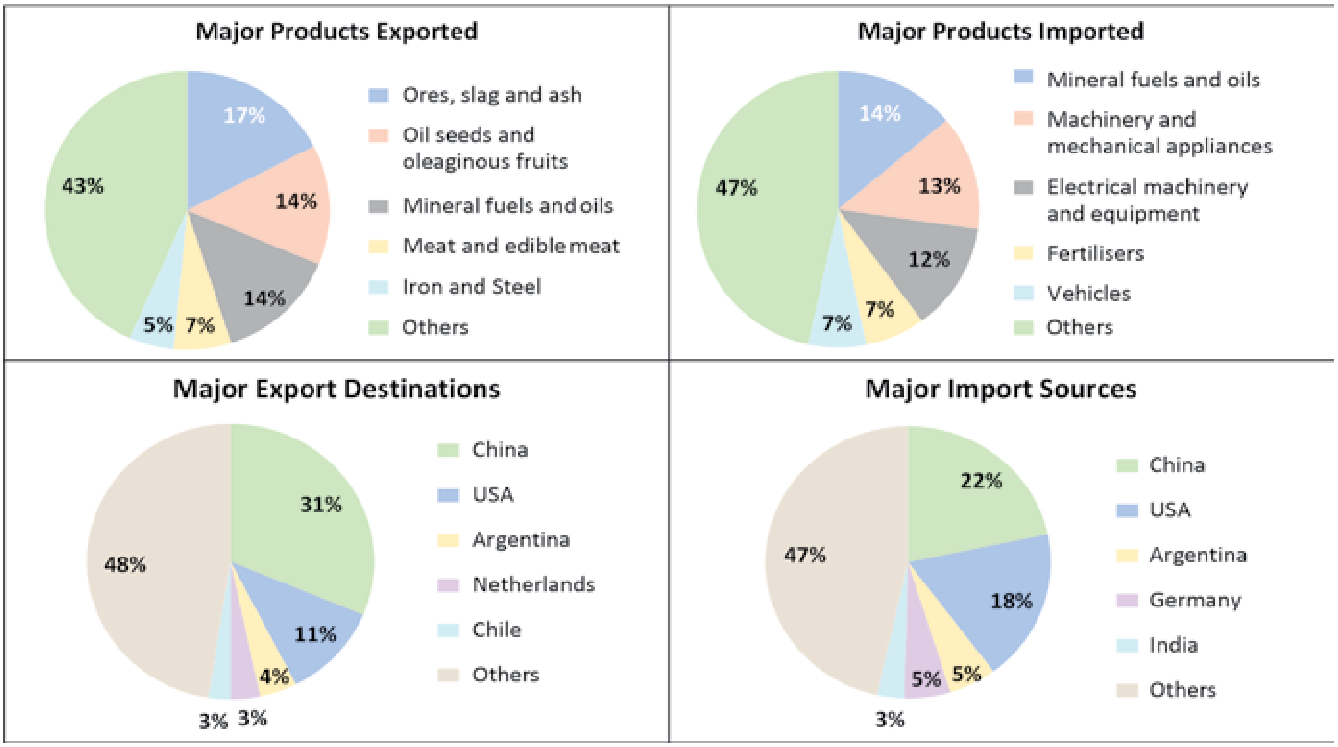
As far as the composition of Brazil's international trade is concerned, in 2021, over 17% of its exports were in the category of 'ores, slag, and ash', most of which were iron ore and concentrates. This was followed by oil seeds (most of which was soybeans) at 13.9%, and mineral fuels and oils at 13.7%. Meat (6.5%) and iron and steel (5.1%) are other important export items.

With respect to imported items, mineral fuels and oils, machinery and mechanical and appliances, and electrical machinery and equipment, had their import share in double-digit in 2021.

It may be noted that over 31% of Brazilian exports go to China. The share of China has increased from 17.2% in 2012. Almost one-third of Brazil's exports to China are of iron ores and concentrates, given that China is the dominant steel player in the world. Another 31% exports are of soybeans. China is followed by USA whose share at 11.2% is the same, as was a decade ago. In the Brazil's top ten export destinations, countries featuring from LAC are Argentina, Chile, and Mexico.

On the import side as well, China is the largest import source for Brazil with over one-fifth of Brazil's imports being sourced from China. Over 30% of Brazil's imports from China consist of electrical machinery and equipment. China is followed by USA with a share of just over 18%. In its top ten import sources, Argentina is the only country from the LAC region.

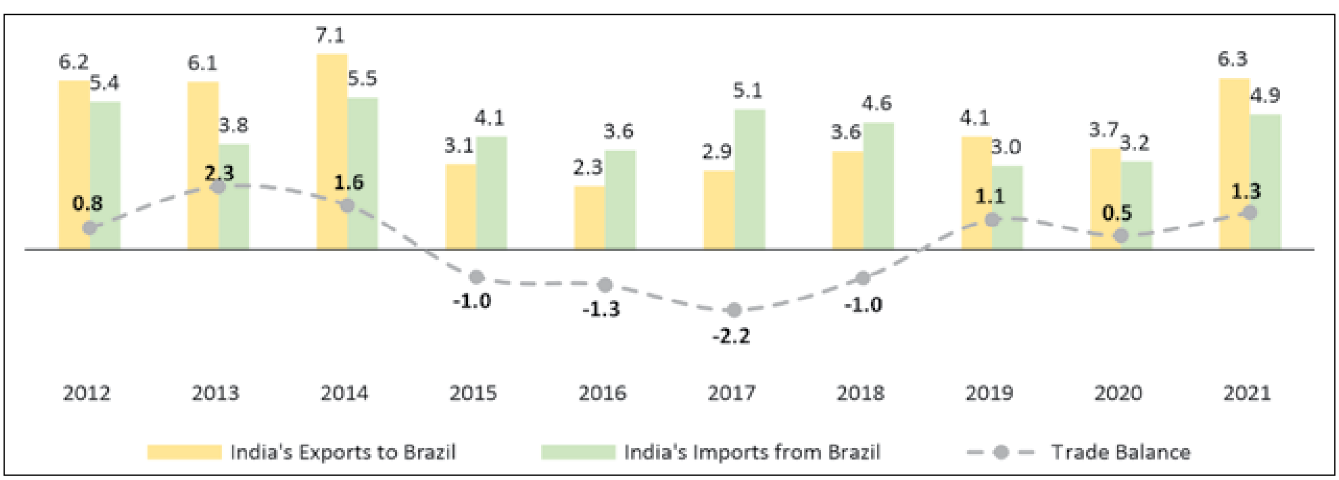
Figure 3.5: Major Traded Products and Trading Partners of Brazil: 2021



Source: ITC Trade Map; India Exim Bank Research

With respect to India's trade with Brazil, it is noted that India's exports to Brazil in 2021 were at almost the same level, when compared to 2012. However, the AAGR registered by India's exports to Brazil (6.4%) has been higher than AAGR registered by India's imports from Brazil (3.9%), during 2012 to 2021. India had a trade surplus of US$ 1.3 billion with Brazil in 2021.

Figure 3.6: India's Trade with Brazil (in US$ Billion)



Source: ITC Trade Map; India Exim Bank Research

Almost 19% of India's exports to Brazil in 2021 were of insecticides, rodenticides, fungicides, etc. Another 18% came from mineral fuels and oils. Over 10% of the exports were of organic chemicals. Other important segments were machinery and mechanical appliances (7.6%), vehicles (HS 87) (6%), and pharmaceuticals (6%).

India's imports from Brazil, on the other hand, are much more concentrated with more than 41% of imports being of mineral fuels and oils in 2021. Another 14% were of fats and oils (mostly soybean oil and its fractions). Gold imports also constituted 13% of India's imports from Brazil.

Opportunities and Investment Climate

During 2010-21, almost 40% of global FDI into the LAC has gone into Brazil. Further, as per Ministry of Finance, Government of India, during the last two decades (FY 01 to FY 22), India's overseas direct investment to Brazil amounted to US$ 575 million, which consists of around 3.8% of India's total ODI in LAC region. The data from fDi markets of Financial Times shows that India's announced investments have mostly been in the sectors like metals, renewable energy, financial services, industrial equipment, chemicals, etc. In the past, companies like Sterlite Power, UPL, Bharat Petroleum, Mahindra & Mahindra, Praj Industries etc. have invested in Brazil.

Brazil is rated Ba2 (Non-investment grade speculative) by Moody's and has been ranked 94 out of 180 in corruption perception index by Transparency International. The country is the largest economy in the LAC region. Despite facing economic and political challenges in recent years, Brazil has shown strong signs of recovery and growth. The country has a diverse economy and offers a range of investment opportunities across various industries. With a growing middle class and an expanding market, Brazil presents an attractive investment opportunity for Indian investors. Additionally, Brazil is also rich in natural resources, making it a major global producer of commodities such as soybeans, coffee, iron ore, and oil.

Some of the top sectors to explore could include construction and engineering, agriculture, chemicals, defense and aviation, education and training, healthcare, ICT, renewable energy, tourism, amongst others. It may be noted that Apex-Brazil (Brazilian trade and investment promotion agency) is proactively promoting the priority sectors which include automotive, environmental solutions, healthcare, oil and gas, research and development, and agribusiness.

India's trade complementary index (TCI) with Brazil was 65% in 2021, signifying a strong alignment in India-Brazil trade. With respect to Brazil's agreements, it is observed that Brazil is a part of the Mercosur trading bloc and Mercosur has completed a trade agreement with EU, but it is yet to come into effect. Further, other than India's existing PTA with Mercosur, India and Brazil signed the Investment Cooperation and Facilitation Treaty & Social Security Agreement in 2020, with the objective of deepening bilateral trade cooperation and provide for an enabling framework for investment cooperation.

3. Chile

Chile has a GDP of over US$ 275 billion at constant 2015 USD and accounts for 0.3% of global GDP and contributes nearly 5% to the LAC's economy. Over the period of 2012 to 2021, Chile's average GDP growth was 2.3%, while inflation averaged 3.2%. In 2022, inflation was estimated to be 11.6%. Additionally, Chile's general government debt as a percentage of GDP remains below 40%. Furthermore, the estimated unemployment rate in Chile remains high at almost 8%.

Trade

Chile's total trade has increased from US$ 158.3 billion in 2012 to US$ 188.1 billion in 2021, recording an AAGR of 3.3%, during this period. While its exports during the last decade grew at an average of 2.8% from US$ 78.3 billion to US$ 92.9 billion, the imports increased at an average of 3.9%, from US$ 80 billion to US$ 95.2 billion. Chile's trade deficit in 2021 was US$ 2.3 billion but it has mostly been in surplus, during the last decade.

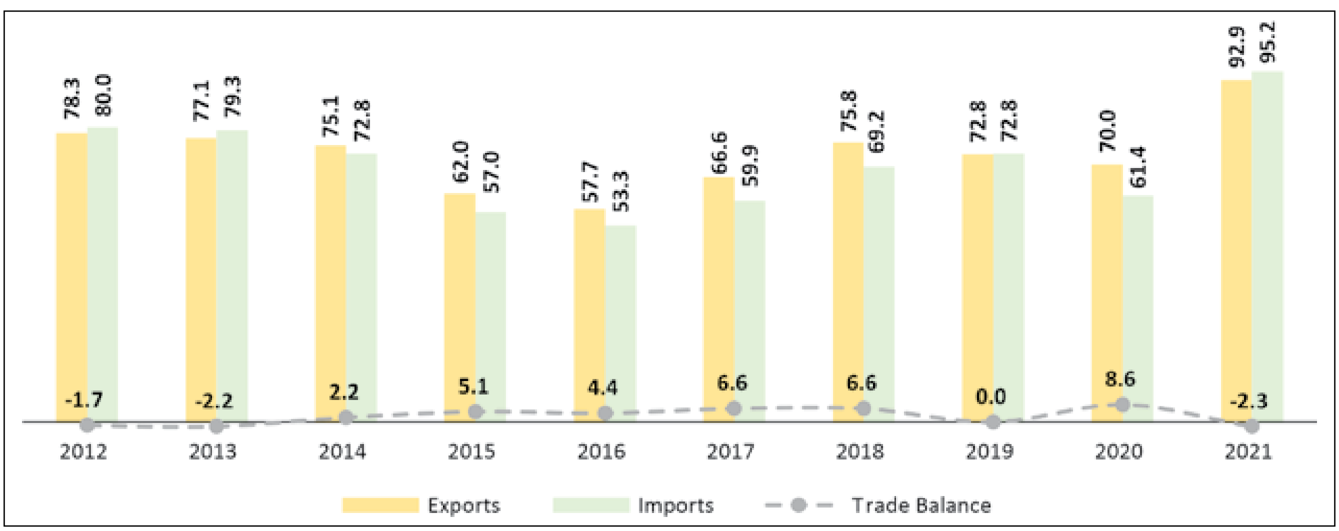
Over one-third of Chile's exports in 2021 were in the category of 'ores, slag, and ash', most of which belonged to copper ores and concentrates. Other important items were 'iron ores and concentrates' and 'molybdenum ores and concentrates'. After 'ores, slag, and ash', 'copper and articles thereof' was the second largest export category with a share of 25% in 2021. This means that almost 50% of exports from Chile came from copper ores and copper and its articles. Other important categories of exports were edible fruits and nuts (mostly apricots, grapes, strawberries etc.) at 7%, and fish and crustaceans at 6.3%.

On the import side, over 18% of Chile's imports were of mineral fuels and oils in 2021, followed by machinery and mechanical appliances at 11.5%, electrical machinery and equipment at 10.4%, and vehicles (HS 87) at 10.2%.

Almost 37% of Chile's total exports went to China in 2021, the share of which has increased from 23.1% a decade ago and 7%, a couple of decades ago. Over 52% of Chile's exports to China consisted of copper ores and concentrates and another 23% were of copper and articles. Other important export destinations for Chile include the US at 17% and Japan at 8%.

With respect to the imports, almost 28% of Chile's imports are from China. This dependency on China has increased from 7% in 2002 and 18% in 2012. Top items imported from China include electrical machinery and equipment, machinery and mechanical appliances, and vehicles (HS 87). Other important import sources for Chile are the US at 20% and Brazil at 9%.

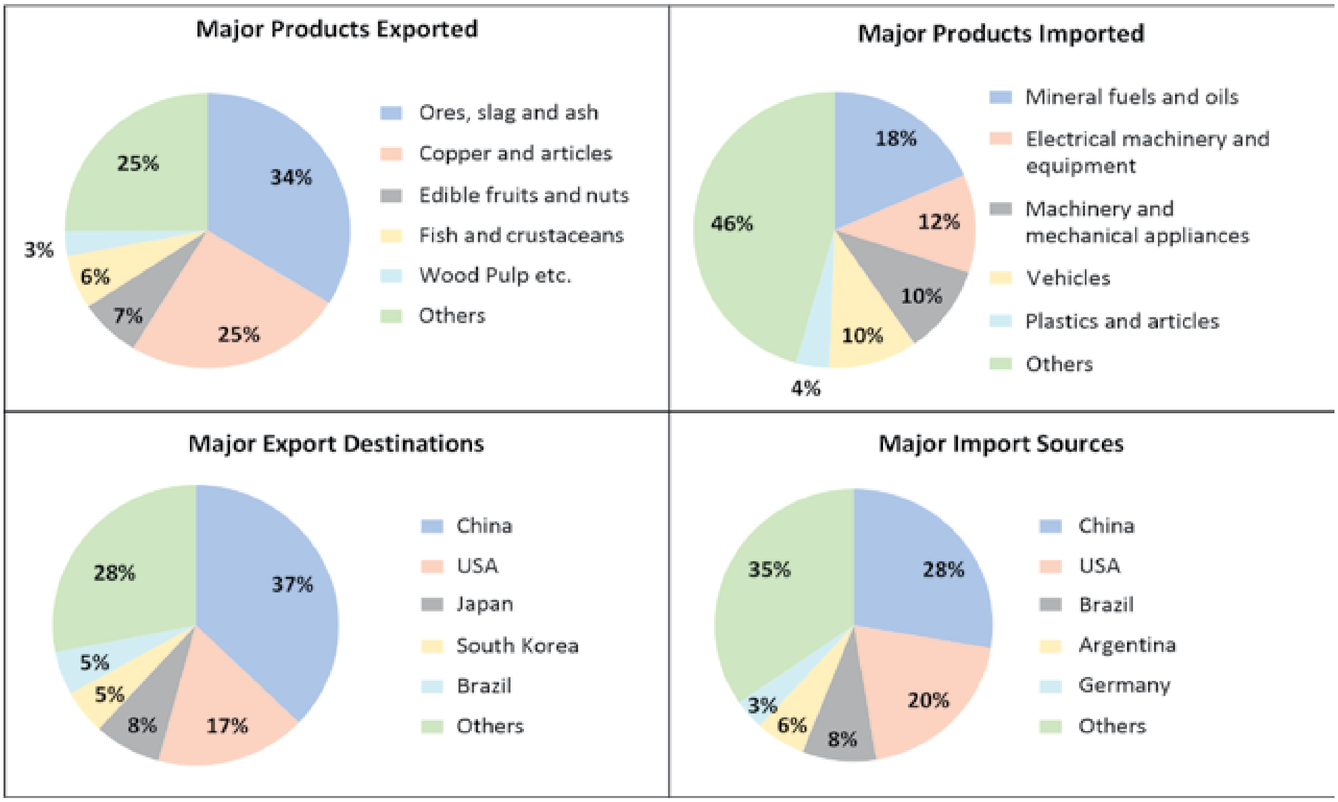
Figure 3.7: Chile's International Trade (in US$ Billion)



Source: ITC Trade Map; India Exim Bank Research

India's total trade with Chile has decreased from US$ 3.2 billion in 2012 to 2.3 billion in 2021. While India's exports to Chile have registered an AAGR of 8% during this period, the import AAGR was recorded at (-) 2.7%. As a result, India's trade deficit with Chile has decreased from (-) 1.9 billion in 2012 to (-) 0.1 billion in 2021.

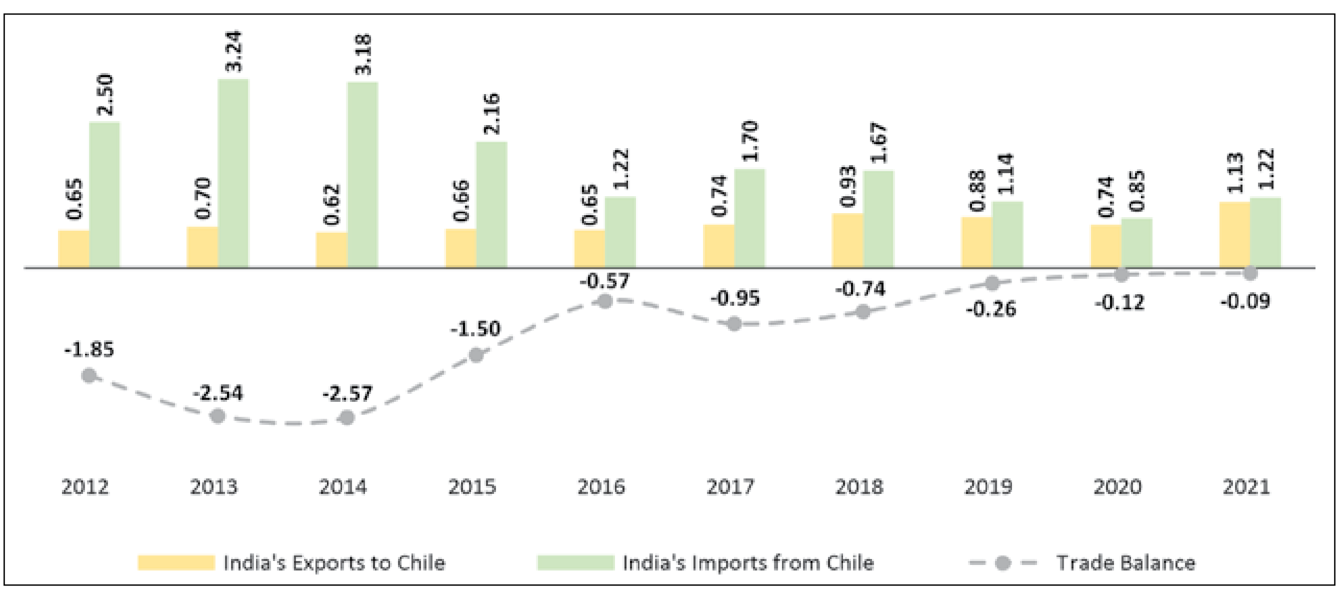
Figure 3.8: Major Traded Products and Trading Partners of Chile: 2021



Source: ITC Trade Map; India Exim Bank Research

Almost 38% of India's exports to Chile in 2021 consisted of vehicles (HS 87). It was followed by pharmaceuticals at 13.6% and machinery and mechanical appliances at 4.8%. With respect to imports, over 73% of imports of India from Chile were in the category of 'ores, slag, and ash', mostly accounted by copper ores and concentrates. Other important categories were edible fruits and nuts at 11.1% and wood pulp etc. at 4.1%.

Figure 3.9: India's Trade with Chile (in US$ Billion)



Source: ITC Trade Map; India Exim Bank Research

Opportunities and Investment Climate

During 2010-21, over 10% of global FDI into the LAC has gone to Chile. Further, as per Ministry of Finance, Government of India, during the last two decades (FY 01 to FY 22), India's overseas direct investment to Chile amounts to US$ 136 million, which consists of approximately 1% of India's total ODI in LAC region. The data from fDi markets of Financial Times suggests that India's announced investments has mostly been in the sectors like software & IT services, medical devices, automotive, etc. In the past, companies like TCS, Mahindra & Mahindra, Wipro Technologies, Dr. Reddy's, amongst others, have invested in Chile.

Chile is one of the highest rated countries in LAC by Moody's at A2 (Upper medium grade) and has been ranked 27 out of 180 in corruption perception index by Transparency International. Chile has a GDP of over US$ 275 billion. Given Chile's strong macroeconomic framework, the country registered a GDP growth of almost 12% in 2021. Further, it has one of the highest GNI per capita in the LAC region at over US$ 14,700, falling in the range of high-income countries. InvestChile is the government agency responsible for promoting FDI in Chile. Foreigners are generally allowed to set up 100% own enterprises in Chile, with some exceptions in industries such as nuclear energy, mining, fishing, air transportation, and national security-related industries. It may also be noted that Chile is rich in resources such as copper, lithium, fisheries etc.

Some of the top sectors to explore could include agricultural equipment, renewable energy, environmental technologies, IT, mining, etc. InvestChile has identified food industry, global services, mining, energy, tourism, and infrastructure as key industries.

India's trade complementary index (TCI) with Chile was 64.3% in 2021, signifying a robust alignment in India-Chile trade. With respect to Chile's agreements, Chile is a part of Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP). Chile also has an association agreement with the UK which has provisions on trade in goods for tariffs, quotas, rules of origin etc. The agreement also has provisions for trade in services, intellectual property, etc. India and Chile also have a preferential trade agreement in place.

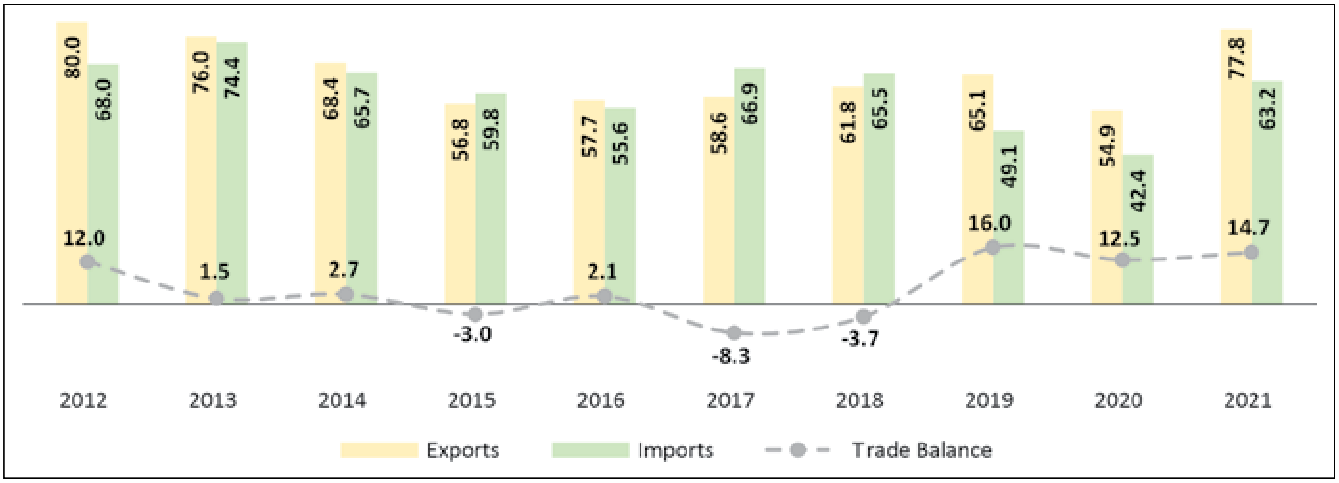
4. Argentina

With a GDP of almost US$ 570 billion, Argentina is the third largest economy in LAC region. Over 10% of LAC's economic contribution is through Argentina. Over the period of 2012 to 2021, Argentina's average GDP growth was (-) 0.09%, with 2020 recording a fall of 10% in Argentina's GDP. The inflation is Argentina has averaged more than 40% in the last half a decade. In 2022, inflation was estimated at over 70%. The inflation is expected to cross the triple-digit mark in 2023. In March 2022, IMF approved a 30-month extended arrangement under the Extended Fund Facility (EFF) for Argentina amounting to SDR 31.914 billion (equivalent to US$ 44 billion).

Trade

The total merchandise trade of Argentina has decreased from US$ 148 billion in 2012 to US$ 141 billion in 2021, recording an AAGR of under 1%. Argentina's exports in 2021 were recorded at US$ 77.8 billion while its imports were worth US$ 63.2 billion. During the last decade, Argentina registered a trade deficit in only three years.

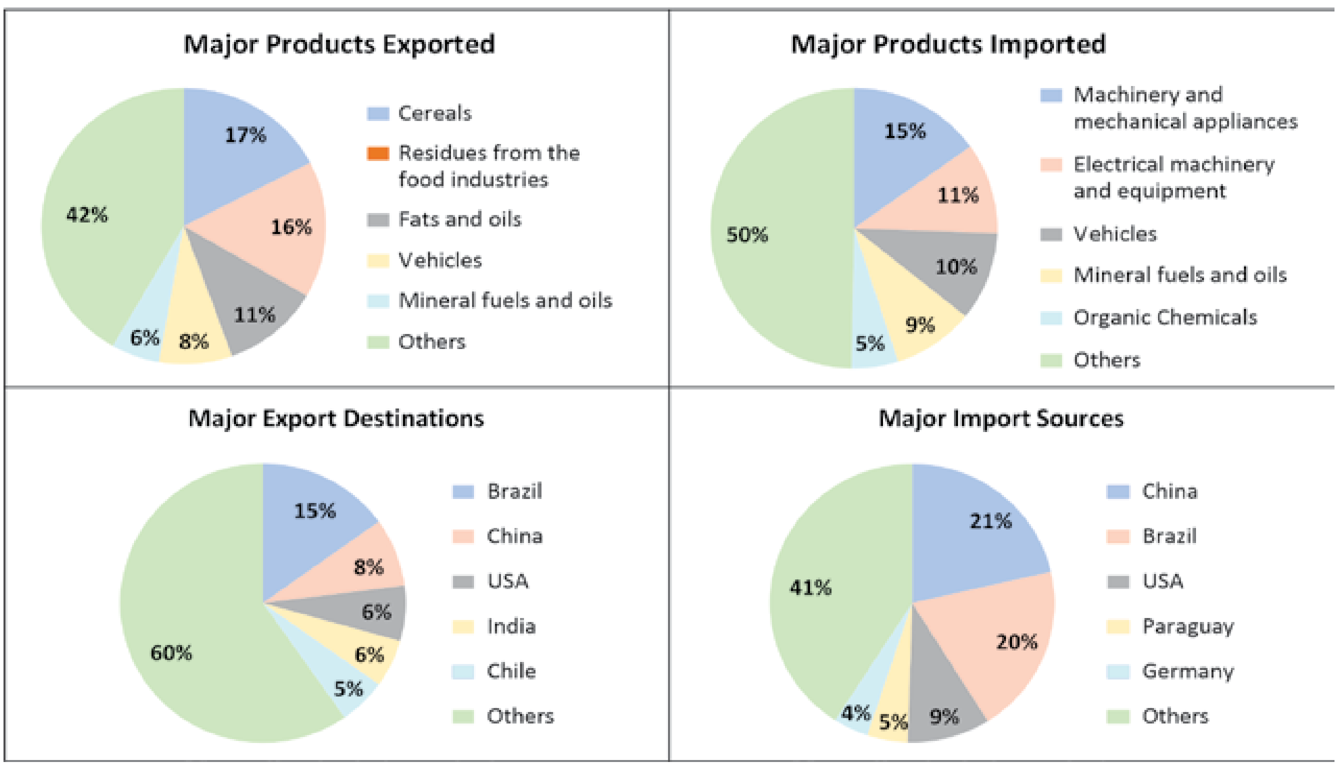
Figure 3.10: Argentina's International Trade (in US$ Billion)



Source: ITC Trade Map; India Exim Bank Research

Over 17% of Argentina's exports in 2021 were accounted by cereals. Within cereals, maize (67%) and wheat and meslin (22%) were the major exported commodities. For the next largest export item of residues from the food industries (share of 16%), over 90% belongs to oilcake and other solid residues.

Figure 3.11: Major Traded Products and Trading Partners of Argentina: 2021



Source: ITC Trade Map; India Exim Bank Research

With respect to the imports, 15% is accounted by the machinery and mechanical appliances under which data processing machines constitute the largest share. The next largest segment is electrical machinery and equipment with a share of 10.5%, with telephone sets, including telephones for cellular networks accounting for almost one-third of electrical machinery and equipment imports of Argentina in 2021.

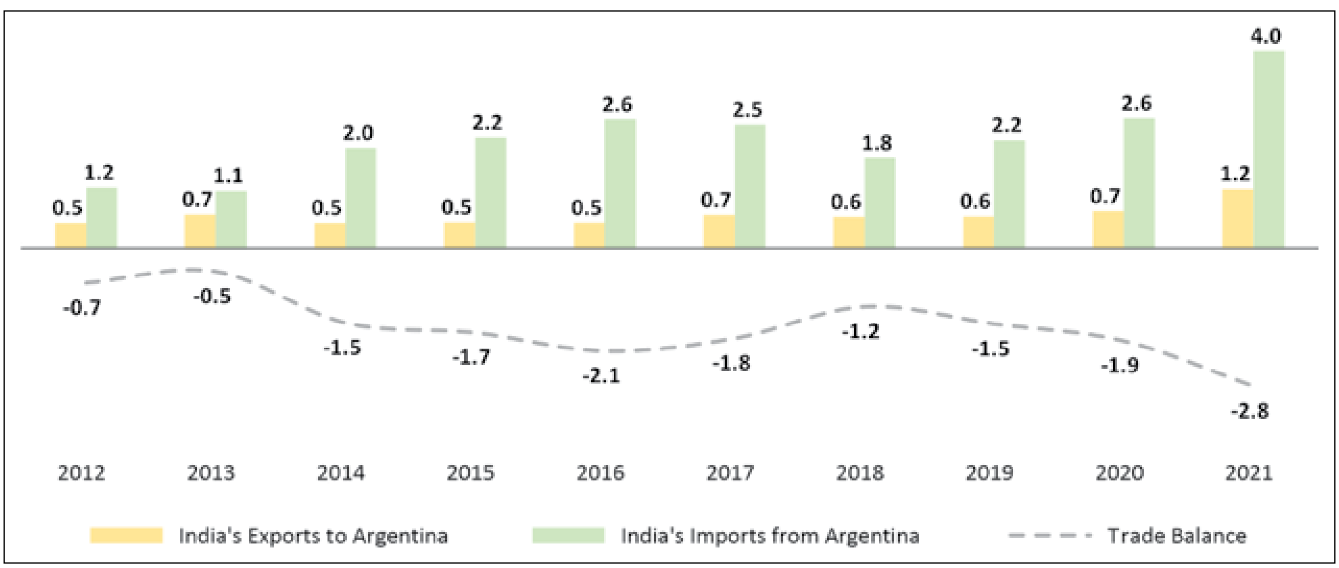
As far as the trading partners are concerned, over 15% of Argentina's exports went to Brazil in 2021. More than 36% of Argentina's exports to Brazil were under the category of vehicles (HS 87). Further, over 31% of Argentina's exports to China were of soya beans, followed by meat of bovine animals at 27%.

On the importing side, over one-fifth of Argentina's imports in 2021 were sourced from China with machinery and mechanical appliances (25%), and electrical machinery and equipment (24%) being the largest imported categories. Organic chemicals (11%) also have a significant share in Argentina's imports from China. China is closely followed by Brazil with a share of 19.7%, from where Argentina imports vehicles (HS 87) (25.4%), machinery and mechanical appliances (10%), and iron and steel (8%).

India's trade with Argentina has shown an encouraging trend in the last decade. India-Argentina trade has increased from US$ 1.7 billion in 2012 to US$ 5.2 billion in 2021, three times increase, recording an AAGR of almost 15%. While India's exports to Argentina have registered an average growth of 12.5%, growing from US$ 0.5 billion to US$ 1.2 billion, during 2012 to 2021, the imports from Argentina have increased from US$ 1.2 billion to US$ 4 billion, an AAGR of 17.6%, during the same period.

Almost 30% of India's exports to Argentina belong to the category of mineral fuels and oils, followed by vehicles (HS 87) at 11%, organic chemicals at 9%, and iron and steel at 8.5%. However, unlike the exports, India's imports from Argentina are significantly concentrated. Almost 77% of imports are of animal or vegetable fats and oils with soyabean oil being the major imported item. Further, almost 14% of the imports are of pearls and precious stones. It may be noted that India's trade deficit in fats and oils with Argentina is over US$ 3 billion.

Figure 3.12: India-Argentina Trade (in US$ Billion)



Source: ITC Trade Map; India Exim Bank Research

<u>Opportunities and Investment Climate</u>

Argentina has been a recipient of almost 6% of global FDI in the LAC region, during 2010 to 2021. With respect to India's direct investment to Argentina, during the last two decades, India has invested only around US$ 2 million. As per fDi markets, India's announced investments in Argentina have been in the industries such as chemicals, medical devices, pharmaceuticals etc. Indian companies like TCS, UPL, CRISIL etc. have invested in Argentina. In February 2023, ONGC also signed an MOU with Yacimientos Petroliferos Fiscales, Sociedad Anonima (YPF SA), which is Argentina's largest integrated energy company.

Argentina is rated Ca (Extremely speculative) by Moody's, which is the lowest rating assigned by Moody's. The country has been ranked 94 out of 180 in corruption perception index by Transparency International. The country grew by over 10% in 2020 and 4% in 2021, however, it is suffering from high inflation. Also, the GNI per capita of Argentina is almost US$ 10,000. Currently, Argentina's key economic priorities include controlling inflation and focusing on post-pandemic recovery. The top sectors to invest in Argentina could include oil & gas, renewable energy, mining, ICT, construction, medical technology, and tourism. Argentina is rich in natural resources such as lithium, zinc, lead, silver, copper, etc.

India's trade complementary index (TCI) with Argentina was 60.5% in 2021. With respect to Argentina's agreements, the country is a member of Mercosur which has free trade agreements with Egypt and Israel and a PTA with India. Mercosur and EU also signed an FTA in 2019. Argentina also has a trade agreement with Chile.

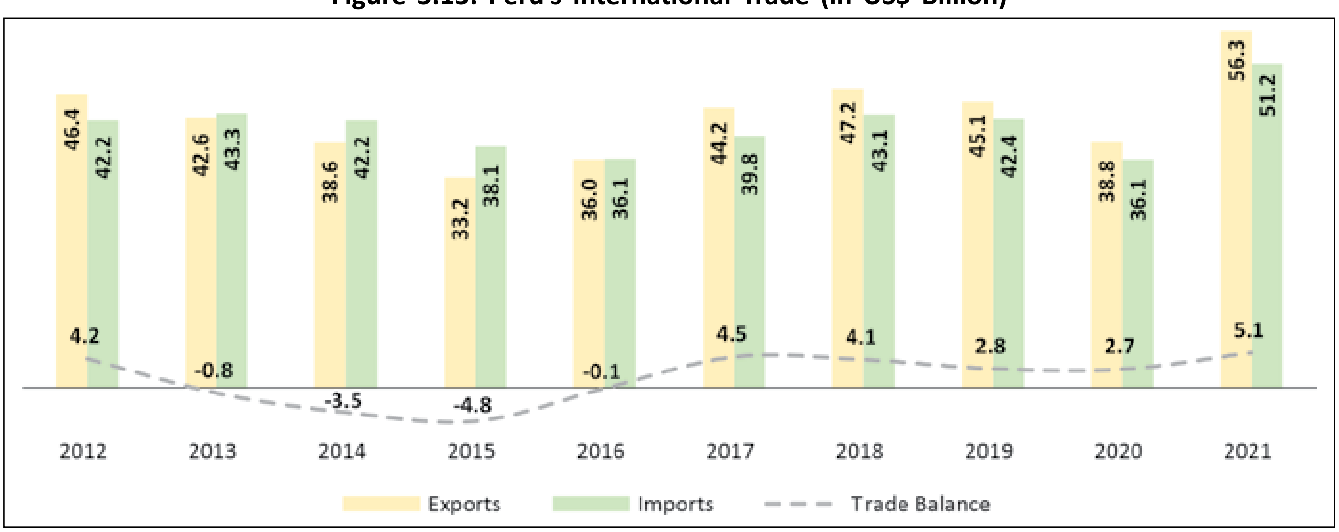
5. Peru

Peru has a GDP of approximately US$ 220 billion and contributes to 3.9% of LAC's GDP. The GDP of Peru has grown by 2.3 times, during the last two decades, faster than the LAC's GDP. During the last decade, Peru's GDP has grown at an average of 3%, every year, with 2021 registering a GDP growth of 13.6%. For 2022, the GDP growth is estimated at 2.7%. Peru has been extremely successful in keeping its inflation in check with the average inflation during 2012 to 2021 being 2.9%. In 2022, Peru's CPI inflation is estimated at 7.5%. The country's general government debt as a percent of GDP has also been in control, with the same being at under 30% on an average, during the last decade.

Trade

Peru's total merchandise trade has grown from US$ 88.5 billion to US$ 107.4 billion, during 2012 to 2021, thereby recording an AAGR of 3.4%. Its exports have registered an AAGR of 3.7% vis-à-vis the imports which have grown at 3.2%. Overall, Peru had a trade surplus of over US$ 5 billion in 2021.

Figure 3.13: Peru's International Trade (in US$ Billion)



Source: ITC Trade Map; India Exim Bank Research

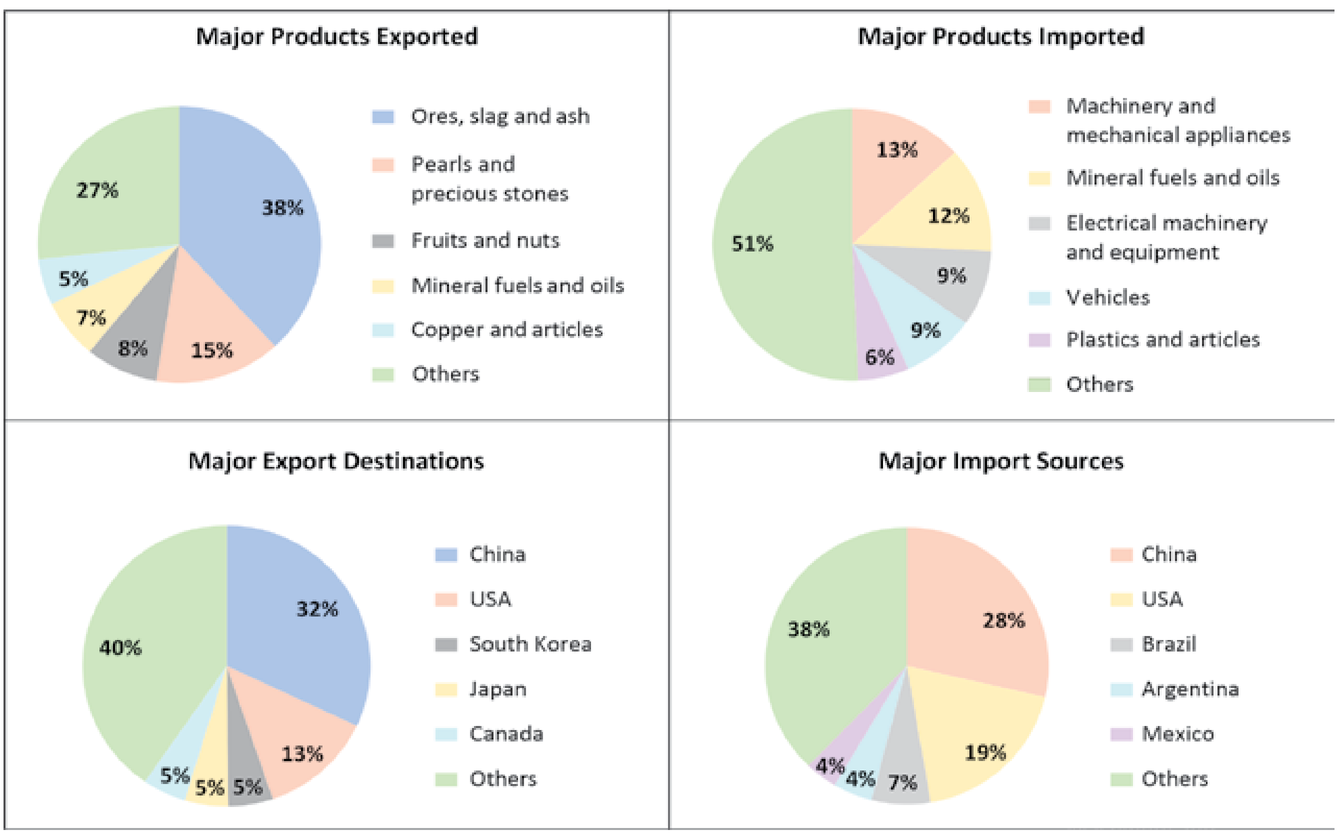
With respect to composition of Peru's exports, Peru has historically been a high exporter of copper ores. In 2021, over 38% of its exports in 2021 were in the category of 'ores, slag, and ash', with over 70% being of copper ores and its concentrates. Other important items under this were iron ores, zinc ores, and lead ores. The second largest exported category in 2021 was pearls and precious stones which constituted over 14% of Peru's exports. This category was dominated by gold exports (96%). Fruits is another important category for Peru's exports under which major items exported include cranberries, grapes, avocados, amongst others.

On the import side, the product concentration is lower vis-à-vis the exports. Over 13% of imports are accounted by machinery and mechanical appliances. It is followed by mineral fuels and oils at 12.6% and electrical machinery and equipment at 9%.

Almost one-third of Peru's exports go to China. The exports to China are heavily dominated by exports of copper ores and concentrates which account for 60% of Peru's exports to China. In fact, the category of 'ores, slag, and ash' together accounts for almost 80% of exports to China. The USA, which is the second largest export destination for Peru with a share of 13%, imports items like gold, cranberries, grapes, tin, etc. from Peru.

On the import sources front, Peru is heavily dependent on China with over 28% of its imports coming from China. Peru imports items like mobile sets, data processing machines, vehicles etc. from China. From USA, which is the second largest import source for Peru at almost 19%, Peru's largest import category is mineral fuels and oils (over 45%). Overall, China and USA are the largest trading partners for Peru.

Figure 3.14: Major Traded Products and Trading Partners of Peru: 2021



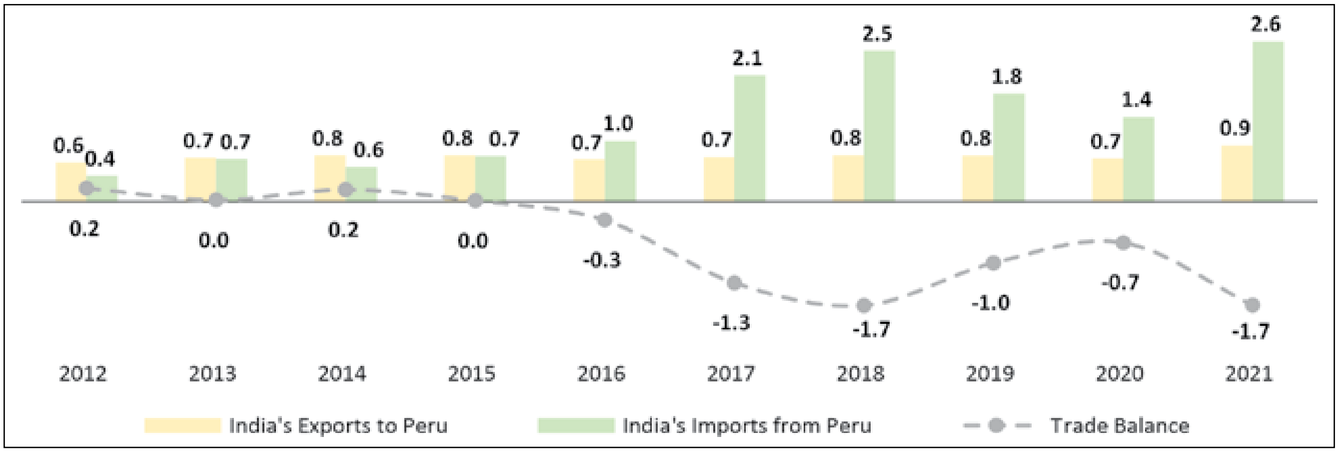
Source: ITC Trade Map; India Exim Bank Research

With India, Peru's trade has increased by more than 3 times, during the last decade. India-Peru total trade has increased from US$ 1.1 billion in 2012 to US$ 3.5 billion in 2021, recording an AAGR of over 18%. It is interesting to note that while India's exports to Peru grew at an AAGR of only 4.7%, the imports from Peru, registered an AAGR of almost 31%. As a result, India's trade surplus of around US$ 0.2 billion in 2012 changed to a deficit of (-) US$ 1.7 billion by 2021.

In 2021, around 24% of India's exports to Peru were in the category of vehicles (HS 87). In fact, India's vehicles exports to Peru have registered an AAGR of almost 9%, in the last decade. Cotton (20%) and pharmaceuticals (11%) are other important Indian export items to Peru.

However, on the import side, over 87% of India's imports in 2021 from Peru were of pearls and precious stones, most of which were of gold. The imports of pearls and precious stones have grown at an AAGR of over 65%, during 2012 to 2021. Even the copper ores and concentrates, which have a share of approximately 12% in India's imports from Peru, have recorded an AAGR of over 97%, during the same period.

Figure 3.15: India-Peru Trade (in US$ Billion)



Source: ITC Trade Map; India Exim Bank Research

Opportunities and Investment Climate

Over 4% of FDI received by LAC during the period 2010-21, has gone to Peru. India's investments have however been limited and were recorded at around US$ 25 million, during the last two decades. India's announced investments in Peru have been in the areas such as coal, oil, and gas, business services, and software and IT services. As per the Ministry of External Affairs, companies such as TCS, Infosys, Tech Mahindra, etc. have invested in Peru.

Peru is rated Baa1 (Lower medium grade) by Moody's and has been ranked 101 out of 180 in corruption perception index by Transparency International. Peru's National Competitiveness Plan for the period of 2019 to 2030 has put forward a series of recommendations with the goal of enhancing the competitiveness of the country's economy and investment climate. The 2019 National Infrastructure Plan (PNIC) has identified 52 priority infrastructure projects, aimed at bridging an estimated infrastructure gap of US$ 110 billion. The PNIC prioritizes projects in areas such as transportation, energy, water and sanitation, education, and health. Other than these areas, select sectors with opportunities for investment include medical devices, mining equipment and machinery, food processing equipment, and textiles and garments.

India's trade complementary index (TCI) with Peru was 65.7% in 2021, indicating a significant alignment in the trade structure of both countries. With respect to Peru's agreements, Peru has a free trade agreement with the US, known as United States-Peru Free Trade Agreement (PTPA). The country is also a member of Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) free trade agreement. Other than these, Peru also has FTAs with China, EU, Australia, Canada, amongst others. Currently, India and Peru have ongoing negotiations for a free trade agreement.

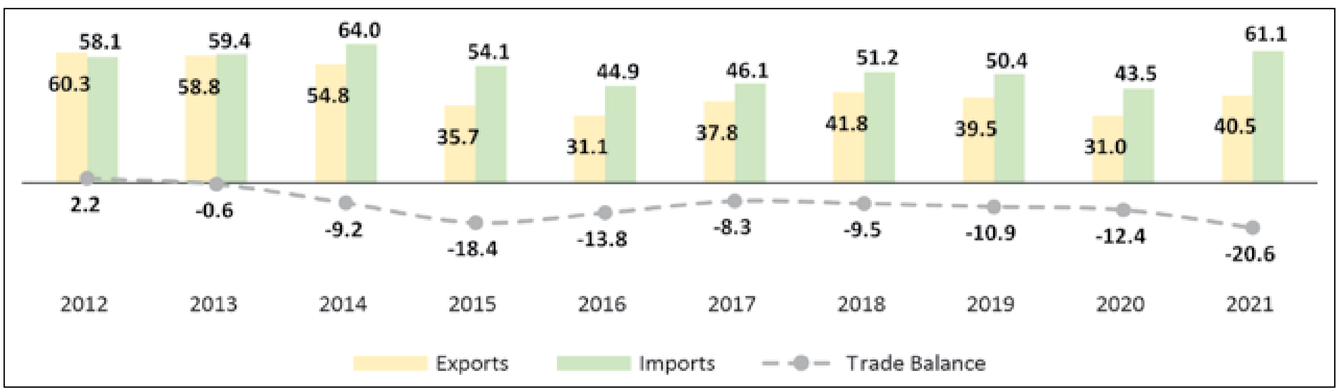
6. Colombia

Colombia has a GDP of over US$ 330 billion at constant 2015 USD and accounts for almost 6% of LAC's economy. Over the period of 2012 to 2021, Colombia's average GDP growth was 2.8%, while inflation averaged 3.8%. In 2022, inflation was estimated to be 9.7%, while the GDP was estimated at 7.6%. The general government debt as a percent of GDP has increased in the recent years from 49.4% in 2017 to 64.6% in 2021, however, it is forecasted to fall to 56% by 2027.

Trade

Colombia's total trade has decreased from US$ 118.4 billion in 2012 to US$ 101.6 billion in 2021, recording an AAGR of (-) 0.3%. Its exports in 2021 were over 32% down from the 2012 level.

Figure 3.16: Colombia's International Trade (in US$ Billion)



Source: ITC Trade Map; India Exim Bank Research

The exports decreased from US$ 60.3 billion in 2012 to US$ 40.5 billion in 2021, thereby recording an AAGR of (-) 2.4%. The imports, on the other hand, increased from US$ 58.1 billion in 2012 to US$ 61.1 billion in 2021, growing at an average of 1.8%. Overall, the trade balance for Colombia changed from a surplus of US$ 2.2 billion in 2012 to a deficit of (-) US$ 20.6 billion in 2021.

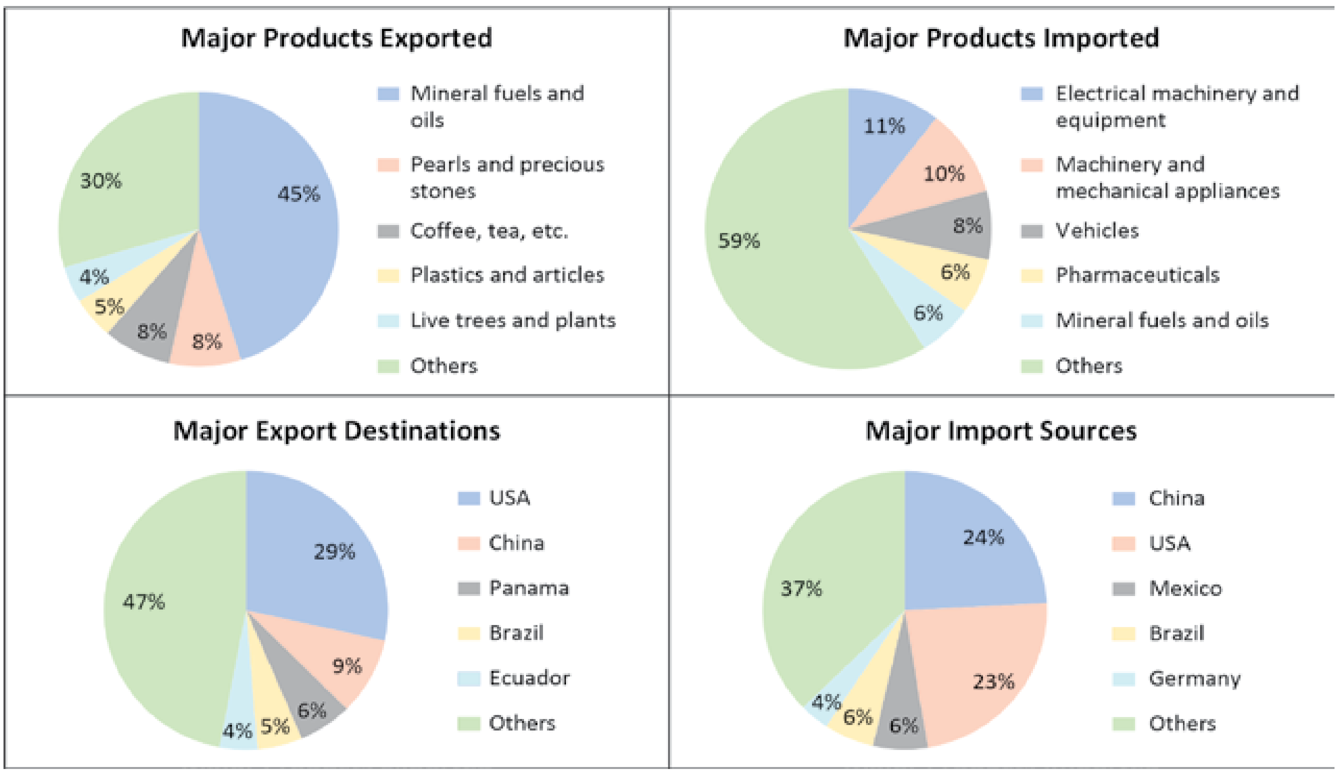
Over 45% of Colombia's exports in 2021 were of mineral fuels and oils, majority of which is crude oil. Another important commodity exported under mineral fuels and oils is bituminous coal. Under pearls and precious stones, which is the second largest exported category, gold accounts for most of the exports. Further, coffee also accounted for 8% of Colombia's total exports in 2021.

With respect to the imports, the items are diversified. Largest imported category in 2021 was electrical machinery and equipment at 10.5%, under which mobile phones account for over 30% of the imports. For the second largest imported category of machinery and mechanical appliances, 'data processing machines' is the top imported item, accounting for a quarter of total machinery and mechanical appliances imports.

Colombia's exports are significantly concentrated towards USA with almost 29% of its exports going to USA in 2021. Over 28% of Colombia's exports to USA consist of crude oil, followed by exports of cut flowers and flower buds (11.7%) and coffee (11.6%). Petroleum products (11.3%) and gold (10.6%) are also important categories of exports to USA.

For import sources, Colombia is highly dependent of China and USA, with these two countries together accounting for over 47% of Colombia's imports in 2021. Top products imported from China include telephone sets (13.1%) and automatic data processing machines (7.9%). From USA, Colombia imported petroleum products (19.7%), maize (8.4%), amongst others.

Figure 3.17: Major Traded Products and Trading Partners of Colombia: 2021

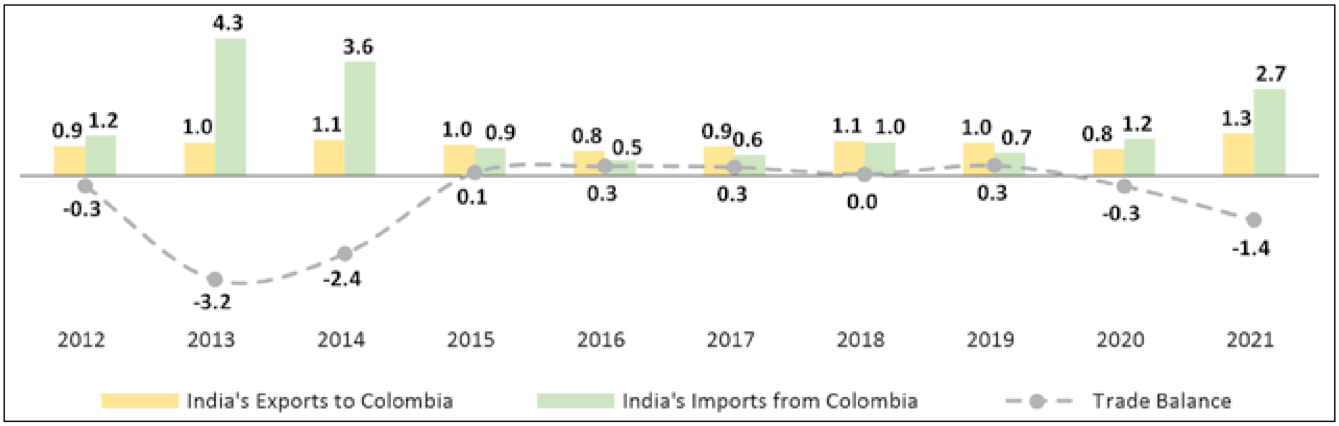


Source: ITC Trade Map; India Exim Bank Research

The total trade between India and Colombia has increased from US$ 2.2 billion 2012 to US$ 4 billion in 2021, growing at an average of 22.3%, annually. However, the growth has mostly been through imports. India's exports to Colombia registered an AAGR of 6.4% during the last decade, while the AAGR for imports was 40.9%.

Vehicles (HS 87) accounted for approximately one-third of India's exports to Colombia in 2021. Other major items included cotton (14.7%), organic chemicals (8.9%), and pharmaceuticals (7.4%). India's imports from Colombia are highly concentrated towards crude oil with the share of same being over 72% in India's imports from Colombia in 2021. Gold accounts for another 19%, which is followed by coke at 5.5%.

Figure 3.18: India-Colombia Trade (in US$ Billion)



Source: ITC Trade Map; India Exim Bank Research

Opportunities and Investment Climate

Colombia has been a recipient of almost 8% of FDI received in LAC during the period 2010-21. In fact, during the last two decades, FDI to Colombia has registered an AAGR of almost 20%. In India's ODI to the LAC region, during FY 01 to FY 22, 1.5% has gone to Colombia, amounting US$ 222 million. India's announced investments in Colombia include software & IT services, pharmaceuticals, chemicals, etc. Indian companies that have already invested in Colombia include ONGC Videsh Ltd (OVL), TCS, Cipla, Aurobindo Pharma, UPL, TVS, Hero, Essel Propack, amongst others.

Colombia is rated Baa2 (Lower medium grade) by Moody's and has been ranked 91 out of 180 in corruption perception index by Transparency International. The economy of Colombia grew by 10.7% in 2021 and is estimated to have grown by 7.6% in 2022, driven by high oil prices. It may be noted that Colombia is rich in natural resources like gold, coal, and petroleum. With respect to investment promotion, ProColombia which is a government agency, is responsible for the promotion of tourism, and investment. The agency has identified various sectors for investment which include agricultural products and food production, energy, private equity and venture capital, infrastructure, tourism and hotel infrastructure, real estate, healthcare and life sciences, IT, and creative industries. E-commerce, education, and medical devices could also be explored.

India's trade complementary index (TCI) with Colombia was 65.3% in 2021, higher than India's TCI with overall LAC region. Colombia has a trade promotion agreement with USA. Given that Colombia is a part of Andean community, it also has a comprehensive trade agreement with the EU and a trade agreement with the UK.

7. Ecuador

Ecuador's GDP was recorded at just under US$ 100 billion in 2021. The country's contribution to LAC's total GDP was just under 2%. Ecuador's average GDP growth for 2012 to 2021 was recorded at 0.9% and it is estimated to have grown by 2.9% in 2022. Inflation also has been low at 1.7% during 2012 to 2021 and was estimated at 3.2% in 2022. The general government debt as a percent of GDP has increased in the recent years from 47% in 2017 to 62.2% in 2021, however, it is forecasted to fall to 45.1% by 2027.

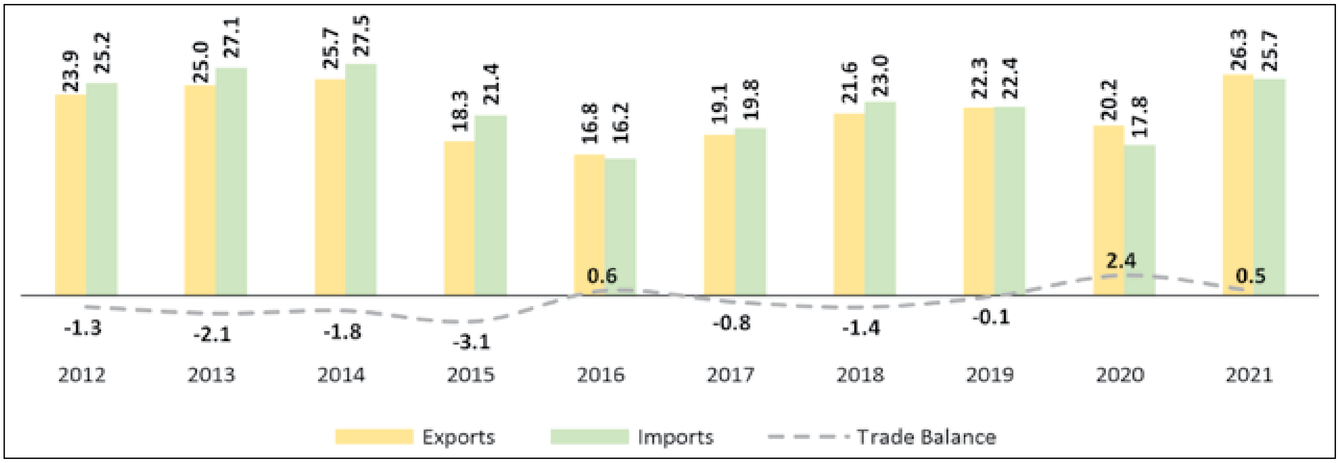
Trade

Ecuador's total trade during the last decade has grown at a slow pace. The total trade has increased from US$ 49 billion in 2012 to US$ 52 billion in 2021, registering an AAGR of 2.3%. Exports and imports, both have grown at almost the same AAGR of 2.4% and 2.5%, respectively. In 2021, Ecuador had a trade surplus of US$ 0.5 billion.

The top three categories, namely mineral fuels and oils (32.8%), fish and crustaceans etc. (21.8%), and fruits and nuts (14.3%), together accounted for almost 70% of Ecuador's total exports in 2021. At a narrower level, major exported items are crude oil, crustaceans, and bananas.

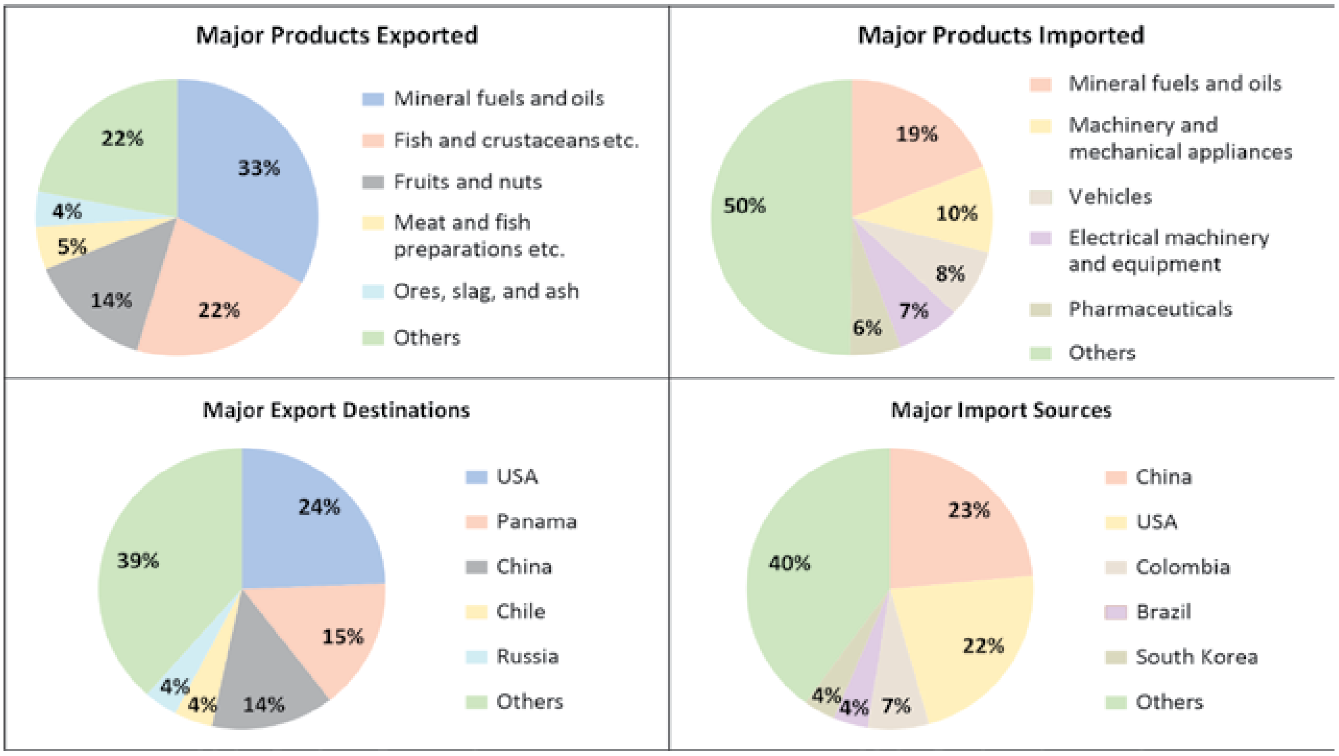
On the import side, the categories are much diversified with minerals fuels and oils accounting for almost one-fifth of the imports. It is followed by machinery and mechanical appliances at 10% and vehicles at 8%.

Figure 3.19: Ecuador's International Trade (in US$ Billion)



Source: ITC Trade Map; India Exim Bank Research

Figure 3.20: Major Traded Products and Trading Partners of Ecuador: 2021



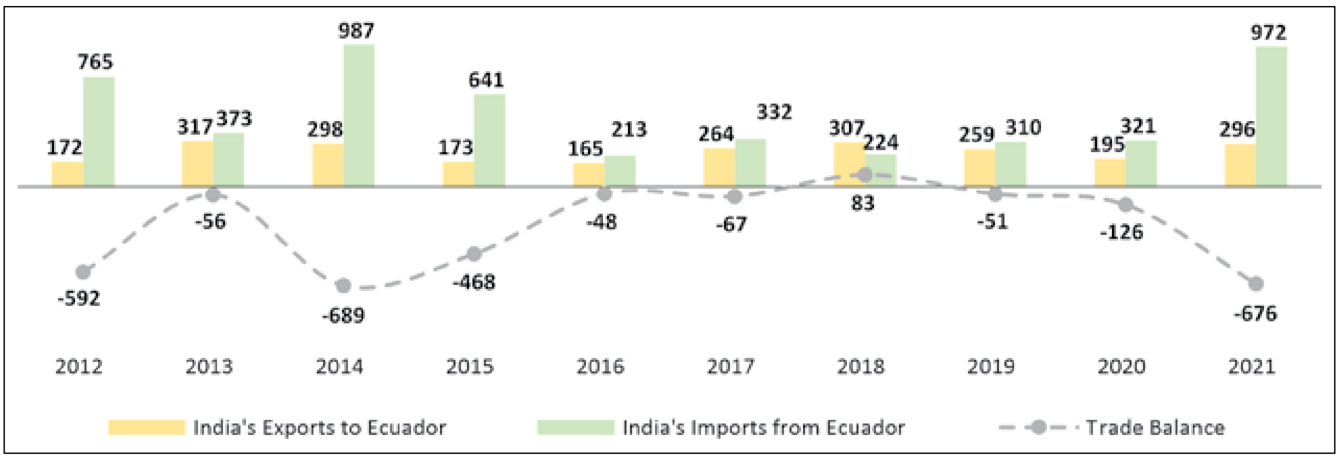
Source: ITC Trade Map; India Exim Bank Research

With respect to the trading partners of Ecuador, almost a quarter of Ecuador's exports went to USA in 2021. Almost 30% of these exports were of crude oil, followed by crustaceans at 21%. China, which is also an important export destination for Ecuador, mostly imports crustaceans (63%) from Ecuador.

Further, Ecuador imports almost 46% of its total imports from just two countries, namely, China (23.5%), and USA (22.1%). Over 16% of Ecuador's imports from China fall in the category of machinery and mechanical appliances. Electrical machinery and equipment (15.4%) and vehicles (HS 87) (13.1%) are also important categories. From USA, Ecuador's 50% imports fall in the category of mineral fuels and oils.

As far as Ecuador's trade with India is concerned, the total trade between the two countries has shown impressive trends. The total trade increased from US$ 937 million in 2012 to US$ 1268 million in 2021, recording an AAGR of 17.8%. However, this growth has mostly come through imports from Ecuador by India. India's imports from Ecuador recorded an AAGR of 31%, during the last decade, growing from US$ 764.6 million in 2012 to US$ 972 million in 2021. In 2021, India's trade deficit with Ecuador stood at US$ 676 million.

Figure 3.21: India-Ecuador Trade (in US$ Million)



Source: ITC Trade Map; India Exim Bank Research

Almost a quarter of India's exports to Ecuador in 2021 were in the category of vehicles (HS 87). Pharmaceuticals (11%), iron and steel (9.1%), and plastics and articles (7.7%) were other important categories. India's imports are however concentrated towards crude oil which had a share of 84% in 2021, in India's imports from Ecuador. Another 11% came from tropical wood.

Opportunities and Investment Climate

During the last decade (2010-21), the total FDI received in Ecuador amounted to US$ 9.7 billion. This is equivalent to only 0.5% of the total FDI received in LAC region. India's investment, during the last two decades, was also low at just US$ 3 million. As per the Ministry of External Affairs, Government of India, some of the Indian companies operating in Ecuador include TCS, Tech Mahindra, UPL, Sharda Cropchem Ltd, Hero MotoCorp, Bajaj, amongst others.

Ecuador is rated Caa3 (substantial risks) by Moody's and has been ranked 101 out of 180 in corruption perception index by Transparency International. The country is rich in natural resources such as silver, gold, and crude oil. In 2020, IMF approved a 27-month EFF arrangement for SDR 4.615 billion (about US$ 6.5 billion) in government's efforts to correct fiscal imbalances and to improve transparency and efficiency in public finance. Pro Ecuador, which is the entity responsible for promoting investment and trade in Ecuador has identified a few strategic sectors which include renewable energy, mining, hydrocarbons, telecommunication, IT, amongst others.

India's trade complementary index (TCI) with Ecuador was 65% in 2021, indicating a significant alignment in India's exports and Ecuador's imports. On the trade agreements front, it may be noted that Ecuador is a part of Andean community (CAN) and the Andean community has signed a trade agreement with the UK. Further, CAN also has an FTA with the EU. It is important to mention that Ecuador is in the process of signing a trade agreement with China.

With respect to India-Ecuador trade scope, in 2013, an MOU on Economic Cooperation was signed which led to the establishment of a Joint Economic and Trade Committee (JETCO) through a Protocol in 2015. During the first JETCO meeting held in May 2017, the two countries agreed to enter into a Preferential Trade Agreement (PTA). The Joint Feasibility Studies for the PTA were completed in July 2019, and in October of the same year, a protocol was signed to initiate official negotiations on the PTA.

8. Costa Rica

Costa Rica has a GDP of over US$ 65 billion. Its GDP grew by an average of 3% annually, during 2012 to 2021. Costa Rica's economy in 2022 was estimated to grow at 3.8%. As far as the inflation is concerned, the average CPI has remained below 2.5%, during 2012 to 2021. In 2022, the inflation was estimated at 8.9%. It may be noted that Costa Rica is one of the few high-income countries in LAC region. Its GNI per capita was recorded at US$ 12,310 in 2021.

Trade

The total trade of Costa Rica, during the last decade, increased from US$ 29.6 billion in 2012 to US$ 32.8 billion in 2021, recording an AAGR of 1.6%. Costa Rica registered a more impressive growth on the export front than the import. The exports of Costa Rica grew from US$ 11.3 billion in 2012 to US$ 14.3 billion in 2021, registering an AAGR of 3.2%. On the other hand, the imports remained almost stable at US$ 18.4 billion and recorded an AAGR of 0.6%, during the same period. As a result, the trade deficit of Costa Rica has fallen from US$ 7.1 billion in 2012 to US$ 4.1 billion in 2021.

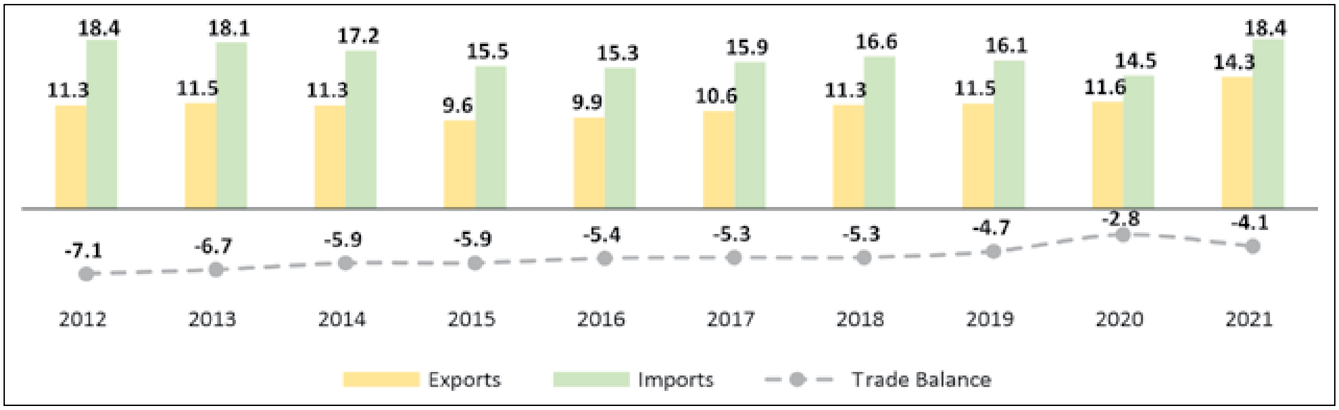
With respect to the trade composition, over 36% of Costa Rica's exports in 2021 fell under the category of 'Optical, photographic instruments etc.', under which important items exported were needles, catheters, cannulae etc. (38% of the category's exports), other instruments and appliances used in medical, surgical sciences (34%), and artificial parts of the body (14%). Another 16% of Costa Rica's exports belonged to the category of fruits and nuts, wherein bananas (46%) and pineapples (45%) were the important export items.

On the import front, the items are quite diversified, with top five categories of imports accounting for only 41% of the total imports. Electrical machinery and equipment accounted for just under 10% of Costa Rica's total imports in 2021. Within this category, almost 16% of imports belonged to mobile phones. The electrical machinery and equipment category is closely followed by mineral fuels and oils which has a share of 9.3% and is majorly dominated by petroleum products.

It may be noted that given its geographical proximity, the USA is the largest trading partner of Costa Rica. Almost 44% of Costa Rica's exports in 2021 went to the USA. Over 57% of Costa Rica's exports to the USA were of optical, photographic instruments etc.

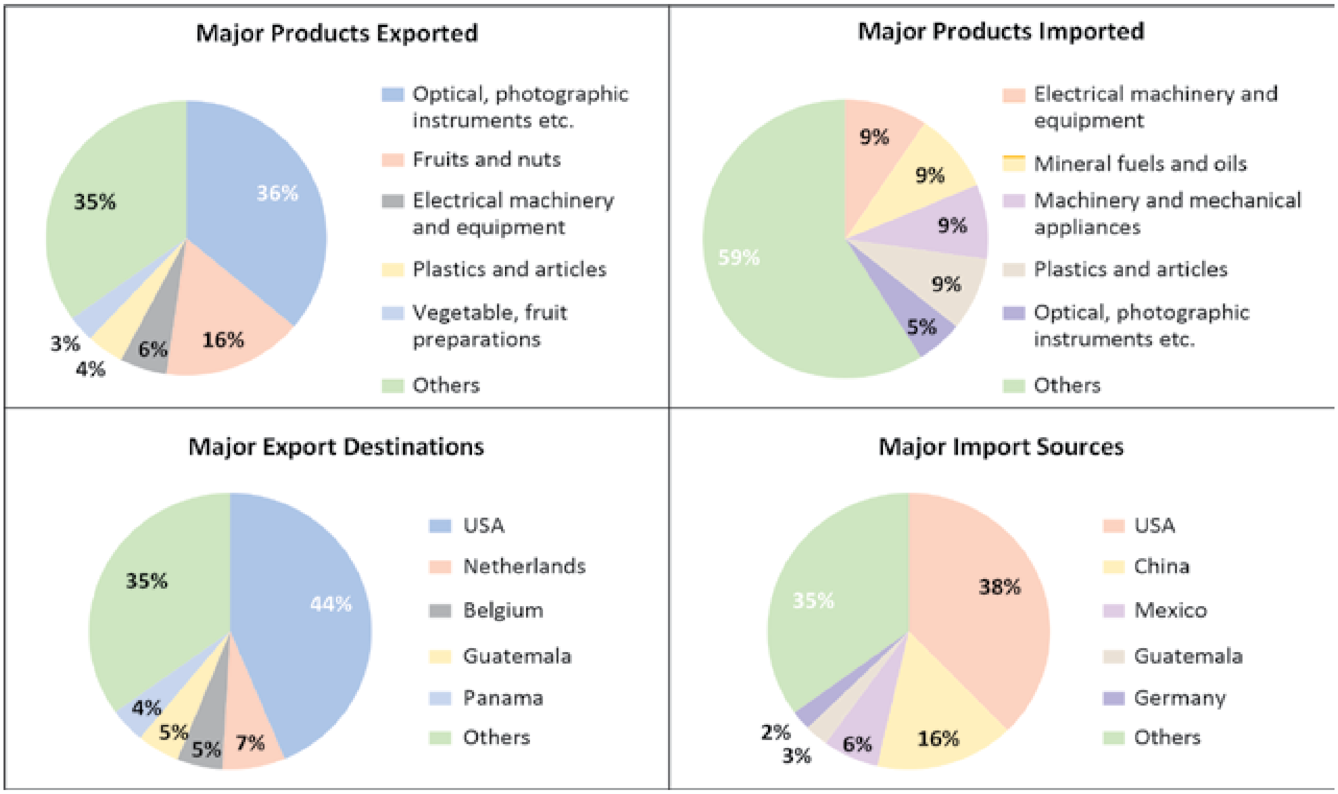
Further, 38% of Costa Rica's imports were from the USA in 2021, over one-fifth of which were of mineral fuels and oils. It is interesting to note that China is the second largest (16%) import source for Costa Rica. The share of China in Costa Rica's imports has doubled from 8% in 2012 to 16% in 2021.

Figure 3.22: Costa Rica's International Trade (in US$ Billion)



Source: ITC Trade Map; India Exim Bank Research

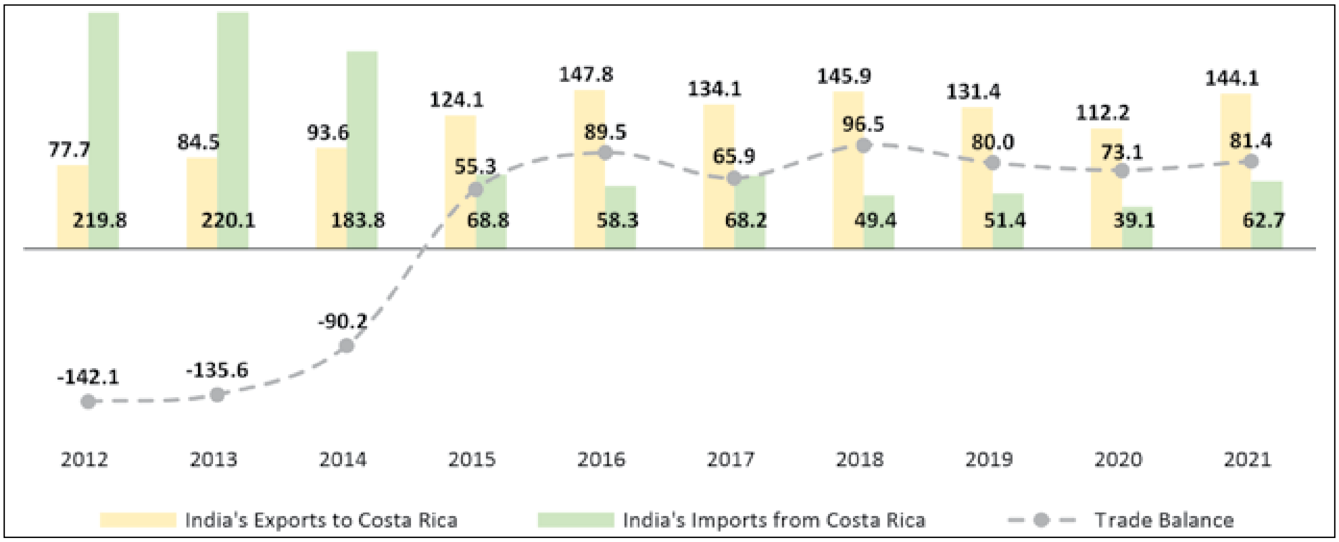
Figure 3.23: Major Traded Products and Trading Partners of Costa Rica: 2021



Source: ITC Trade Map; India Exim Bank Research

As far as India-Costa Rica trade is concerned, the total trade between the two nations has fallen from US$ 297.5 million in 2012 to US$ 144.1 million in 2021, recording an AAGR (-) 2.5%. However, it may be noted that India's exports to Costa Rica increased at an average of 8.3% annually, during the same period, growing from US$ 77.7 million in 2012 to US$ 144.1 million in 2021. As a result, India's trade deficit of (-) US$ 142.1 million in 2012 changed to a trade surplus of US$ 81.4 million in 2021.

Figure 3.24: India-Costa Rica Trade (in US$ Million)



Source: ITC Trade Map; India Exim Bank Research

Almost one-fourth of India's exports to Costa Rica in 2021 were of vehicles (HS 87). Another important category is of pharmaceuticals which constituted a share of 11% in India's exports to Costa Rica in 2021. Medical and surgical instruments had a share of 7.7%. With respect to India's imports from Costa Rica, 55% imports were of wood and its articles. Another 17% imports were of parts and accessories of data processing machines.

Opportunities and Investment Climate

Costa Rica has received 2% of the total FDI that LAC has received from the world during the last decade. This amounts to over US$ 30 billion. As far as India is concerned, as per the Government of India, in the last two decades, India's total ODI in Costa Rica has been US$ 7 million. Some of the Indian companies that have invested in Costa Rica include Infosys, Wipro, WNS, UPL, and Gravita. The data from fDi markets of Financial Times shows that India's announced investments has mostly been in the sectors such as software & IT services, communications, and business services.

Costa Rica is rated B2 (Highly speculative) by Moody's and has been ranked 48 out of 180 in corruption perception index by Transparency International. Costa Rica has achieved remarkable success in the past two decades by establishing and promoting an ecosystem of export-oriented technology companies, suppliers of input goods and services, public institutions, universities, and a skilled workforce. Despite facing challenges such as high and persistent government fiscal deficit and underperformance in certain key areas of government service provision, such as healthcare and education, the country's exports have remained resilient. The medical device manufacturing sector, in particular, has exhibited promising economic prospects. Furthermore, Costa Rica's accession to the OECD in 2021 has positively influenced the country to address its economic weaknesses through executive decrees and legislative reforms.[7]

The investment promotion efforts in Costa Rica are primarily led by PROCOMER and CINDE. CINDE has a proven track record of attracting and retaining investment in specific sectors, including services, advanced manufacturing, life sciences, light manufacturing, and the food industry, over several years. Meanwhile, the

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Instituto Costarricense de Turismo (ICT) focuses on providing assistance to potential investors interested in the tourism sector.

Some of the sectors for investment that could be explored in Costa Rica are agriculture, automotive parts, construction equipment, cosmetics, education, solar energy, and tourism.

India's trade complementary index (TCI) with Costa Rica was 64.3% in 2021, a decent alignment in India's exports and Costa Rica's imports. Further, Costa Rica has an FTA with Caribbean Community (CARICOM). One of the important FTAs for Costa Rica is Dominican Republic-Central America-United States Free Trade Agreement (CAFTA-DR FTA) which entered into force in 2009 for Costa Rica. The country also has an FTA with China since 2011.

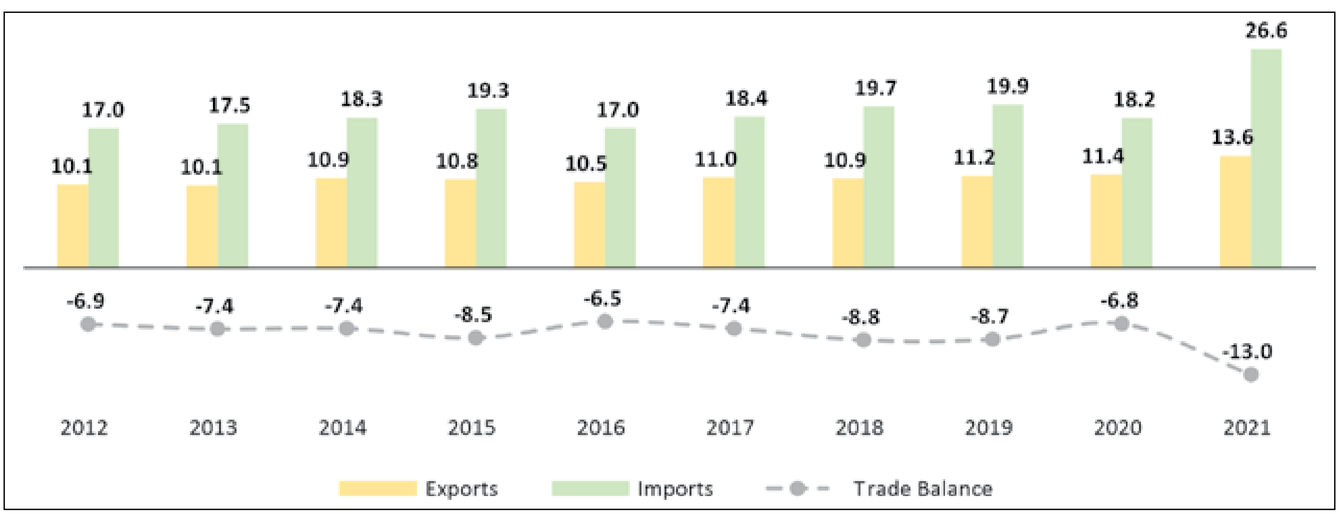
9. Guatemala

Guatemala's GDP was recorded at over US$ 75 billion in 2021 and recorded a growth of almost 8% over 2020. During 2012 to 2021, the GDP of Guatemala registered an AAGR of approximately 3.5%. The GDP is estimated to have grown by 3.4% in 2022, as per the IMF. Further, in 2022, the inflation for Guatemala was estimated at 6.4%, while during 2012 to 2021, the inflation growth averaged 3.8%.

Trade

The total trade of Guatemala has grown from US$ 27.1 billion in 2012 to US$ 40.2 billion in 2021, thereby growing at an average of 5.1%, annually. The imports have however grown faster than the exports. The imports increased from US$ 17 billion to US$ 26.6 billion, during the same period, recording an AAGR of 6.1%. The exports during 2012-2021, grew by an average of 3.5% annually, from US$ 10.1 billion in 2012 to US$ 13.6 billion in 2021. As a result, the trade deficit for Guatemala in 2021 widened to US$ 13 billion, from US$ 6.9 billion in 2012.

Figure 3.25: Guatemala's International Trade (in US$ Billion)



Source: ITC Trade Map; India Exim Bank Research

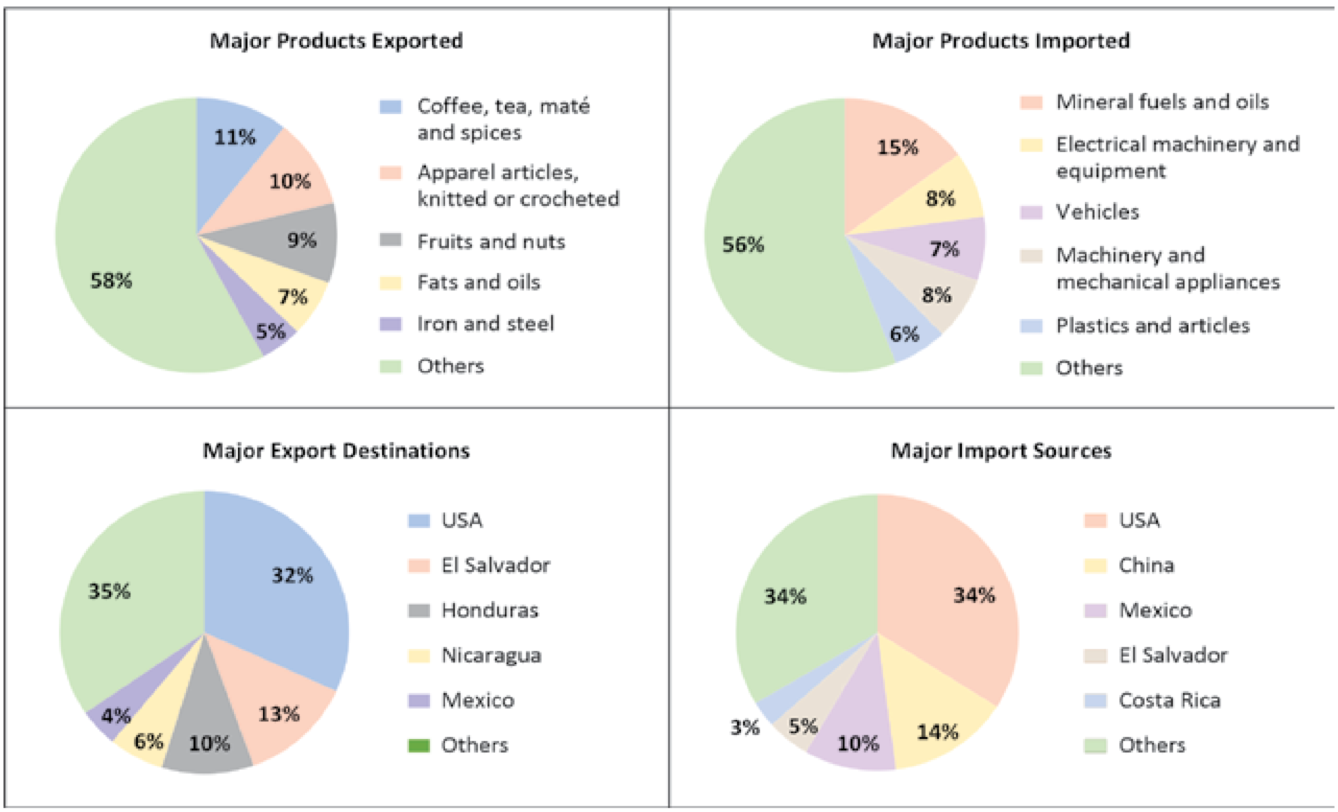
With respect to the trade composition, the top exported category in 2021 was coffee, tea, maté and spices, within which, over 60% of the exports came from coffee. The second largest category in 2021 was knitted apparel articles. This was followed by edible fruits and nuts, for which most exports came through bananas.

On the imports side, over 15% of the imports come from mineral fuels and oils category, with petroleum products being the major segment. For the second largest category of electrical machinery and equipment, mobile phones constitute 40% share. Vehicles (HS 87), and machinery and mechanical appliances are other important categories.

The USA is Guatemala's largest trading partner. Almost 32% of Guatemala's exports in 2021 went to USA. Over 30% of these exports were of knitted apparel articles. Another 25% were of edible fruits and nuts. It may be noted that barring USA, all other export destinations of Guatemala in top five were in LAC region.

As far as imports are concerned, USA accounts for over one-third of Guatemala's imports. 34% of Guatemala's imports from USA were of mineral fuels and oils in 2021. China is the second largest import source for Guatemala. Its imports from China are quite diversified and includes items like motorcycles, mobiles, tyres, iron and steel, etc.

Figure 3.26: Major Traded Products and Trading Partners of Guatemala: 2021

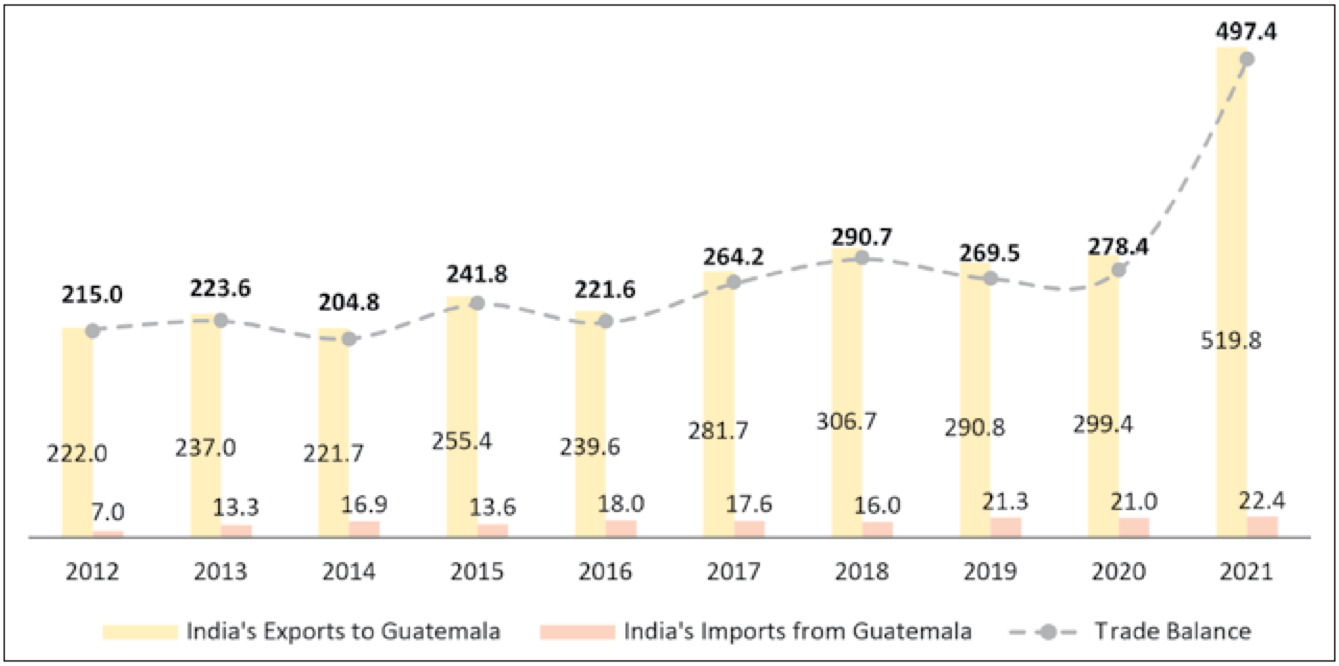


Source: ITC Trade Map; India Exim Bank Research

With respect to India-Guatemala trade, it may be noted that India enjoys a huge trade surplus with Guatemala. In 2021, India's exports to Guatemala were around US$ 520 million. In comparison, the imports were just over US$ 22 million. Both, India's exports to Guatemala and India's imports from Guatemala, have registered a double digit AAGR, during the last decade.

India's exports to Guatemala in 2021 were majorly of vehicles and parts (HS 87) (share of 31%), cotton (19.6%), and pharmaceuticals (12.2%). On the import front, India imported wood and articles (36%), wood pulp (20%), and nutmeg, mace and cardamoms (19.2%) in 2021 from Guatemala.

Figure 3.27: India-Guatemala Trade (in US$ Million)



Source: ITC Trade Map; India Exim Bank Research

Opportunities and Investment Climate

During 2010 to 2021, Guatemala has received almost US$ 16 billion worth of FDI, registering an AAGR of over 30%. With respect to India, the total outward direct investment from India to Guatemala, during the last two decades, amounted to US$ 10 million. Indian companies such as Praj Industries Ltd., B Fouress Ltd., Hero motorcycles, Bajaj etc. have invested in Guatemala.

Guatemala is rated Ba1 (Non-investment grade speculative) by Moody's and has been ranked 150 out of 180 in corruption perception index by Transparency International. In the recent past, top sectors that have been receiving FDI in Guatemala include ICT, finance and insurance, manufacturing, vehicle repair, water and sanitation, amongst others. Guatemala's Ministry of Economy (MINECO) started implementing an economic recovery plan in September 2020 as part of the government's initiatives to encourage economic recovery during and after the COVID-19 pandemic. The plan's main objectives are to restore lost jobs and create new ones, draw in new strategic investment, and increase domestic and international demand for Guatemalan goods and services. Guatemala's investment promotion office (PRONACOM) aids potential foreign investors by providing information, evaluation, coordination of country visits, contact recommendations, and assistance with the processes and permits required to operate in the nation. Some of the top sectors that can be explored for investment in Guatemala are automotive repairs, travel and tourism, construction equipment, food processing etc.

India's trade complementary index (TCI) with Guatemala was 69.5% in 2021, much higher than the LAC average, signifying the scope of trade between both the nations. As far as trade agreements are concerned, Guatemala is a part of the Dominican Republic-Central America-United States Free Trade Agreement (CAFTA-DR) which has been in place since 2006 for Guatemala. Guatemala also has trade agreements with Mexico, Colombia, Taiwan, amongst others. It is also in negotiations with South Korea, the UK, and Canada.

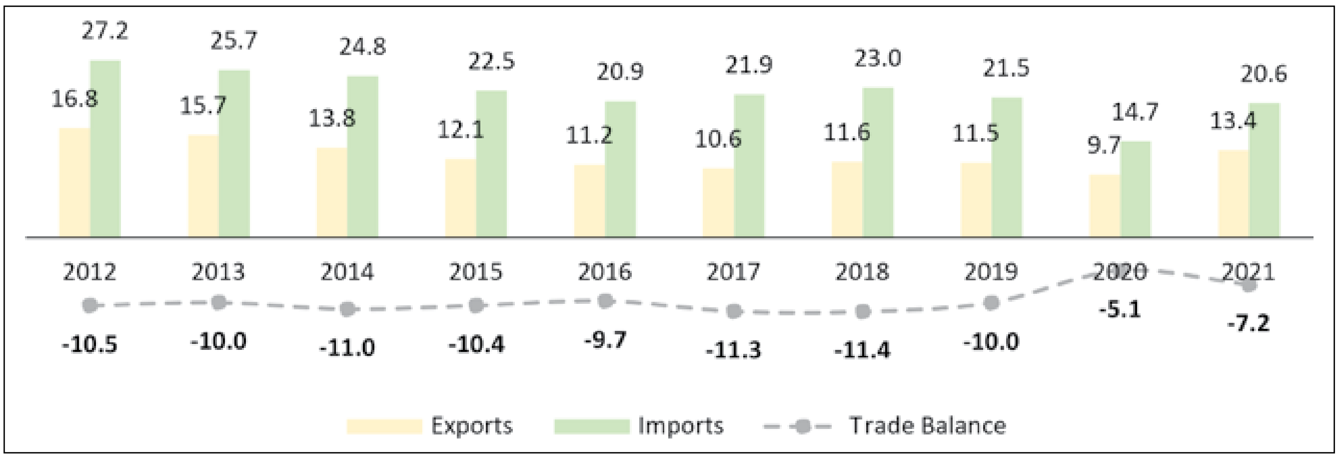
10. Panama

Panama is one of the few high-income countries in the LAC region. Panama's GNI per capita was recorded at US$ 13,920 in 2021. Panama has a GDP of US$ 60.6 billion and its GDP growth in 2021 was over 15%. In 2022, it is estimated to have grown at around 7.5%. During the last decade, the GDP for Panama grew at an average of 3.6%, annually. Inflation in Panama has been in control, with the average inflation growth during the last decade being 1.5%. In 2022 as well, the inflation growth was estimated at under 4%.

Trade

Panama's international trade totalled US$ 34 billion in 2021. This is lower than its total trade of US$ 44 billion in 2012. As a result, the average annual growth rate (AAGR) registered by Panama in its total trade was (-) 1.6%. While its exports fell by (-) 1.3% on an average, during this period, the imports fell by (-) 1.5%. Panama's trade deficit has decreased from (-) US$ 10.5 billion in 2012 to (-) US$ 7.2 billion in 2021.

Figure 3.28: Panama's International Trade (in US$ Billion)



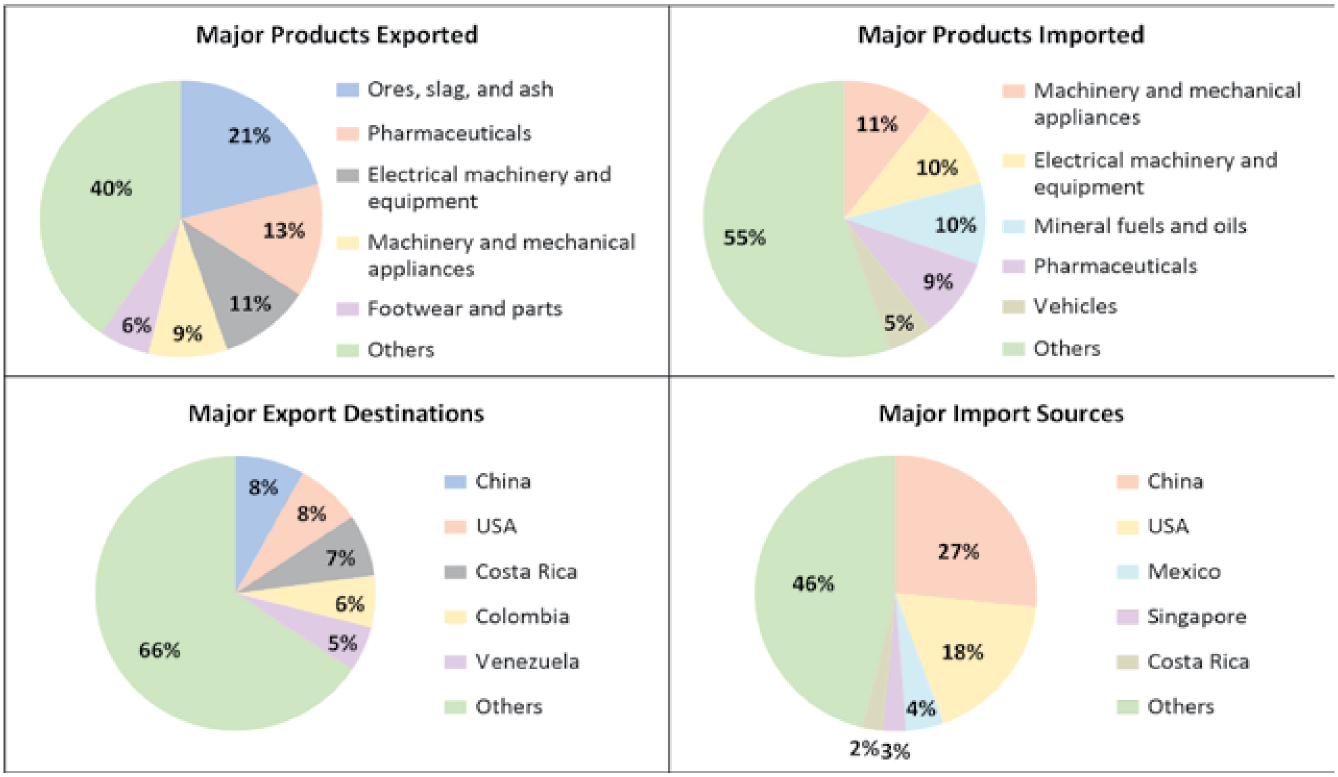
Source: ITC Trade Map; India Exim Bank Research

Over one-fifths of Panama's exports in 2021 were in the category of 'ores, slag, and ash', mostly copper ores and concentrates. It may be noted that Panama has started exporting copper ores and concentrates only since 2019, with the beginning of commercial production by Cobre Panama mine in September 2019. This category was followed by pharmaceuticals 13.2%, the export share of which has been in double digits since 2012.

As far as the imports are concerned, imports are less concentrated vis-à-vis the exports. Both 'machinery and mechanical appliances' and 'electrical machinery and equipment' had a share of over 10% in the imports of Panama in 2021. Under the former, automatic data processing machines account for around 20% of imports, and under 'electrical machinery and equipment', telephone sets contribute to almost one-third of total imports.

With respect to the trading partners, the export destinations of Panama are much lesser concentrated, as compared to the import sources. The top three export destinations, namely, China, USA, and Costa Rica, together account for 23% of Panama's exports. On the other hand, Panama's top import source, China, alone accounts for 27% of Panama's imports. Another 18% comes from USA. Its imports from China are significantly diversified and range from footwear to apparels to telephone sets. From USA, almost 15% of imports are of petroleum products.

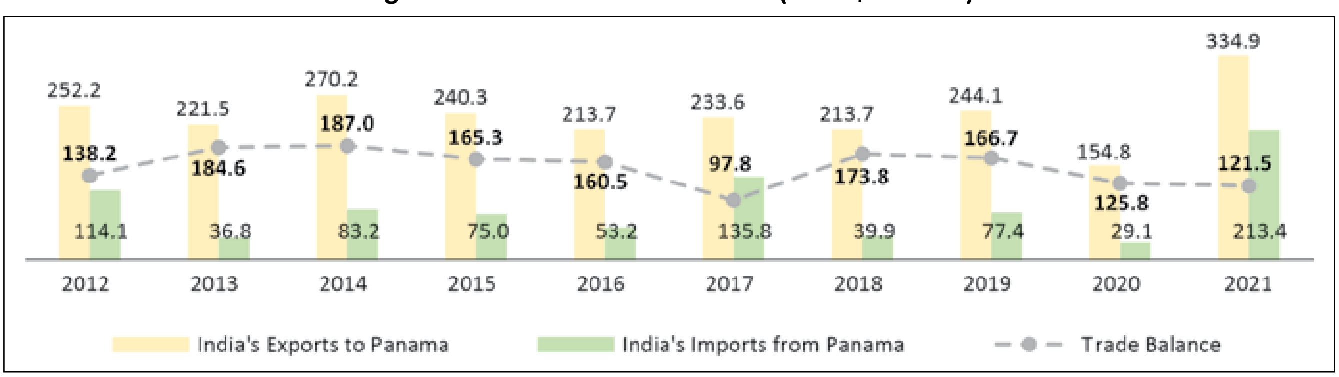
Figure 3.29: Major Traded Products and Trading Partners of Panama: 2021



Source: ITC Trade Map; India Exim Bank Research

India's total trade with Panama has however increased from US$ 366.3 million in 2012 to US$ 548.3 million in 2021, an AAGR of approximately 19%. India has a trade balance of over US$ 120 million with Panama. Almost one-third of India's exports to Panama are of minerals fuels and oils. Another 15% come from apparels and 13% come from vehicles (HS 87). On the import front, 75% imports are of copper ores and concentrates.

Figure 3.30: India-Panama Trade (in US$ Million)



Source: ITC Trade Map; India Exim Bank Research

Opportunities and Investment Climate

Panama has received over US$ 50 billion of global FDI, during the last two decades, registering an AAGR of over 60%, in the inward FDI. With respect to India's investment in Panama, it may be noted that, it is the third largest ODI destination in LAC region for India, with ODI amounting to US$ 580 million, during the last two decades.

Panama has been rated Baa2 (Lower medium grade) by Moody's and has been ranked 101 out of 180 in corruption perception index by Transparency International. Panama has been one of the fastest growing regions in the LAC and recorded a growth of over 15% in 2021. The benefits to invest in Panama include its stable democracy, dollarized economy, and various free trade agreements. While Panama's market is not that large, the Panama Canal provides a huge economic boost to the country's trade.

Panama's economy is largely services based with almost 70% contribution to the GDP coming from services. However, other than the services, segments which can be explored to invest are medical equipment, cybersecurity, pharmaceuticals, agricultural products etc. In 2021, Panama also launched its new Export and Investment Promotion Agency called ProPanama. The agency aims to attract FDI and promote exports. It may be noted that Panama has been under FATF's grey list since June 2019.

India's TCI with Panama was 61.6% in 2021, a decent match in the trade of two countries. Further, it may be noted that Panama has various trade agreements in place. These include FTAs with Central America, Mexico, Singapore, Israel etc. Panama also has a Trade Promotion Agreement (TPA) with the USA.

11. Dominican Republic

Dominican Republic's GDP was recorded at just under US$ 95 billion in 2021. The country's contribution to LAC's total GDP was around 1.7%. Dominican Republic's economy grew by over 12% in 2021 and is estimated to have grown by 5.3% in 2022. Its average GDP growth during 2012 to 2021 was recorded at 5.3%. Inflation also has been manageable at an average of 3.5% during 2012 to 2021 but was registered at 8.2% in 2021 and was estimated at 9% in 2022. The general government debt as a percent of GDP has increased in the recent years from 48.9% in 2017 to 71.5% in 2020. However, post that, it fell to 63.1% in 2021 and 58.4% in 2022.

Trade

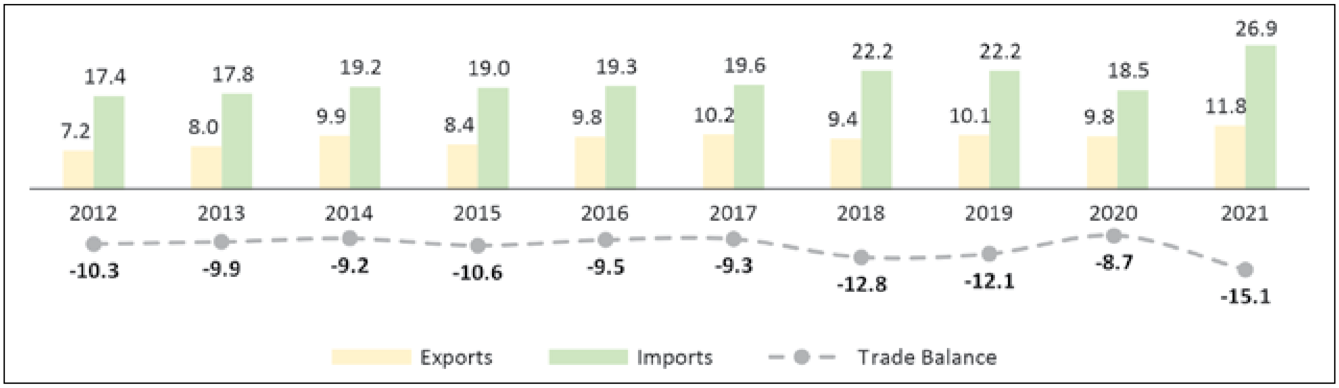
Dominican Republic's total trade has increased by almost 60% during the last decade. The total trade has increased from US$ 24.6 billion in 2012 to US$ 38.8 billion in 2021, recording an AAGR of 5.9%. The exports have grown marginally faster than the imports, during this period. The exports grew from US$ 7.2 billion in 2012 to US$ 11.8 billion in 2021, growing at an average of 6.5%. On the other hand, imports grew at an average of 6% from US$ 17.4 billion in 2012 to US$ 26.9 billion in 2021. The country's trade deficit has increased from US$ 10.3 billion in 2012 to US$ 15.1 billion in 2021.

As far as the trade composition is concerned, 'pearls and precious stones' remains the largest export category for Dominican Republic with a share of more than 21% in 2021. Under this category, gold contributes the most at over 71%. Another important category for Dominican Republic's exports is 'tobacco and substitutes' which had a share of 10.5% in 2021, where in cigars, cigarettes etc. constitute over 85% share of the category. For electrical machinery and equipment, which is the third largest category with a share of over 10%, 'Automatic circuit breakers for a voltage <= 1000 V' constitute over 60% of this category. Instruments and appliances used in medical, surgical, dental or veterinary sciences are also important export items and contributed to around 10% of Dominican Republic's exports in 2021.

On the import front, minerals fuels and oils (mostly petroleum products) are the largest imported category for Dominican Republic. Plastic and articles are also a major imported category.

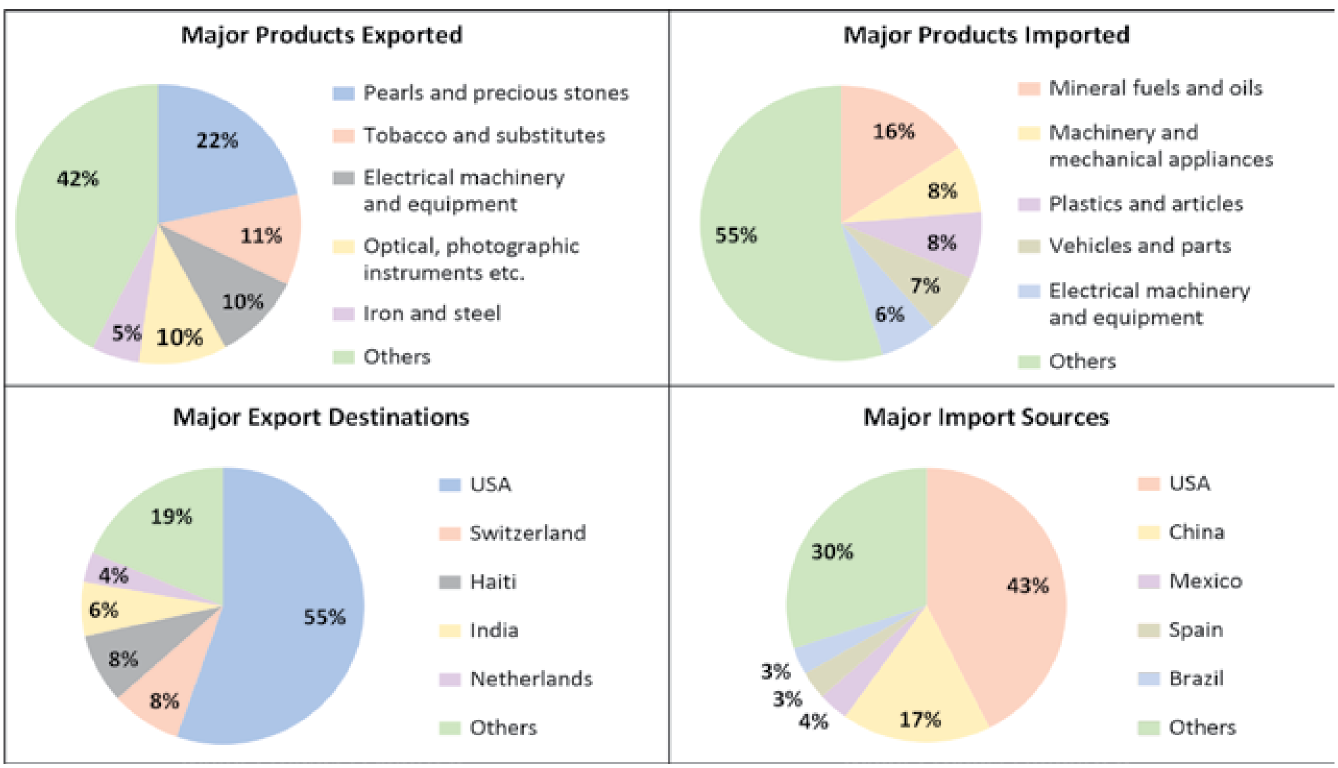
USA remains the largest trading partner of Dominican Republic. More than 55% of Dominican Republic's exports are bound for USA and more than 42% imports are sourced from USA. Cigars and cigarettes (14.7%), and medical instruments (14.1%) are the largest exported items from Dominican Republic to USA. On the import side, almost 30% of imports from USA are of mineral fuels and oils and 10% of plastic articles. Another 6% are of vehicles. India is the fourth largest export destination for Dominican Republic. It may be noted that China is also an important source for the country with a share of more than 17% and the imports from China are significantly diversified.

Figure 3.31: Dominican Republic's International Trade (in US$ Billion)



Source: ITC Trade Map; India Exim Bank Research

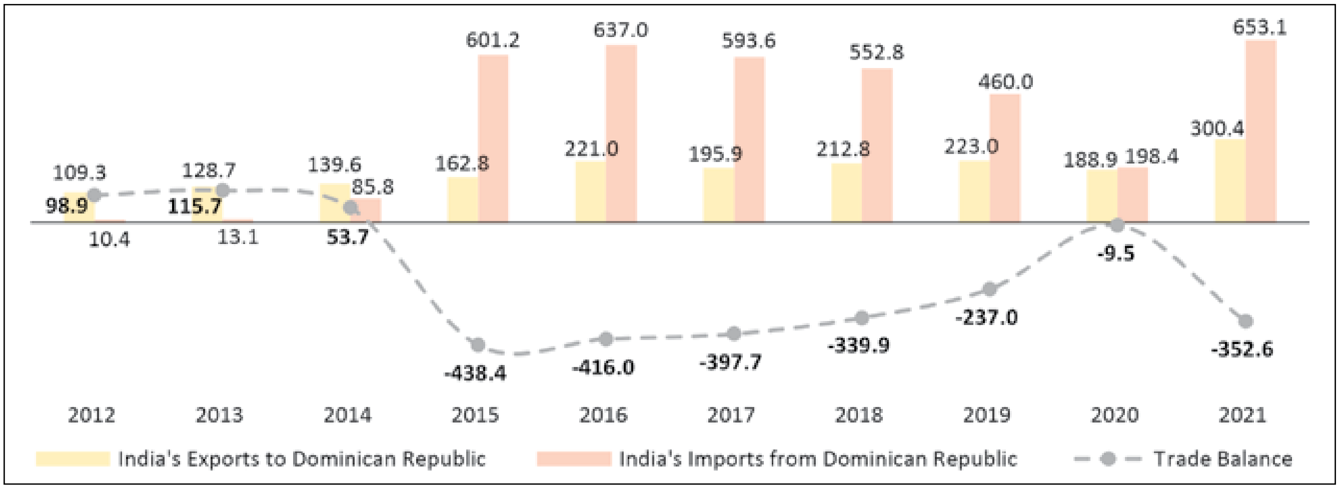
Figure 3.32: Major Traded Products and Trading Partners of Dominican Republic: 2021



Source: ITC Trade Map; India Exim Bank Research

The India-Dominican Republic trade has increased by almost 8 times, during the last decade. However, this has come mostly at the cost of India's imports from Dominican Republic. India's imports of gold were nil until 2013. However, since then, the India's gold imports from Dominican Republic have been increasing at an exponential rate. The share of gold imports in India's total imports from Dominican Republic was over 94% in 2021, up from 78% in 2014. India's exports have also grown impressively. The AAGR registered by India's exports to Dominican Republic during 2012 to 2021 was almost 14%. Over 21% of India's exports to the country are of pharmaceuticals. Another 16% were of vehicles (HS 87) in 2021. Crustaceans (share of 7.3%) is also an important export item.

Figure 3.33: India-Dominican Republic Trade (in US$ Million)



Source: ITC Trade Map; India Exim Bank Research

Opportunities and Investment Climate

Dominical Republic has registered one of the highest average GDP growths (4.9%) during the last decade, amongst the major LAC countries. Its GNI per capita has grown from US$ 5730 in 2012 to US$ 8100 in 2021, clearing signifying a growing market. With respect to the FDI received, during the last two decades, Dominican Republic has received FDI worth US$ 31 billion.

Dominican Republic is rated Ba3 (Non-investment grade speculative) by Moody's and has been ranked 123 out of 180 in corruption perception index by Transparency International. Dominican Republic has been one of the fastest growing regions in the LAC and as a result, provides various opportunities for foreign investment. One of the biggest advantages of investing in Dominican Republic is that the country is a member of Central America Free Trade Agreement-Dominican Republic (CAFTA-DR). The Export and Investment Center of the Dominican Republic (CEI-RD) aims to promote the exports from Dominican Republic and invite investments. Further, a combined (public-private) organization called the National Free Zone Council (CNZFE) has the responsibility of promoting and expanding free zones in the Dominican Republic. For businesses located in free zones that focus on exports, it serves as a "One Stop Shop". Select sectors that can be explored for investment include automobile parts, financial services, ICT, renewable energy, agriculture, etc.[8]

India's trade complementary index (TCI) with Dominican Republic is the highest at 71% in 2021, amongst the major countries of LAC. With respect to the agreements, Dominican Republic is a part of United States-CAFTA-DR, since 2007. The country also a trade agreement with CARICOM. Further, Dominican Republic is a part of CARIFORUM which has an economic partnership agreement (EPA) with the EU.

[8] US International Trade Administration

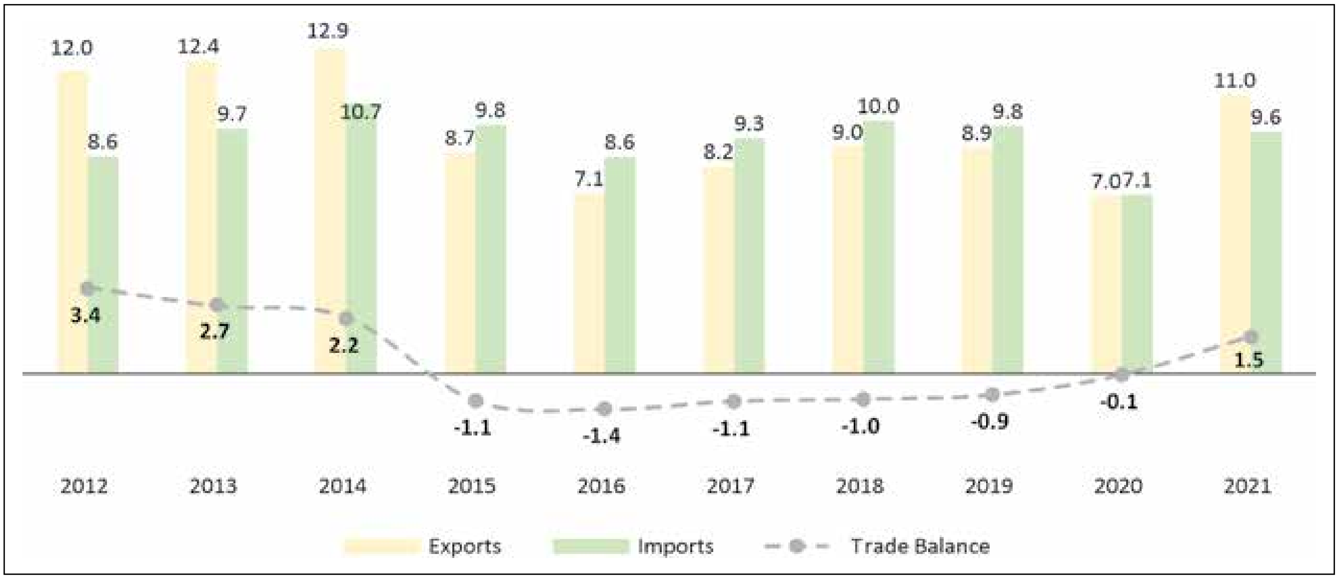
12. Bolivia

Bolivia has a GDP of just under US$ 40 billion. Over the period of 2012 to 2021, Bolivia's average GDP growth was 3.3%, while inflation averaged 3.2%. In 2022, inflation growth was estimated to be 3.2%, whereas GDP growth was estimated at 3.8%. Additionally, Bolivia's general government debt as a percentage of GDP has consistently increased during the last decade, from 35.4% in 2012 to 82.6% in 2022.

Trade

Bolivia's total trade in 2021 was registered at US$ 20.6 billion. In comparison to 2012, the total trade remains almost the same. While the exports have decreased from US$ 12 billion to US$ 11 billion, during this period, the imports have grown from US$ 8.6 billion to US$ 9.6 billion.

Figure 3.34: Bolivia's International Trade (in US$ Billion)



Source: ITC Trade Map; India Exim Bank Research

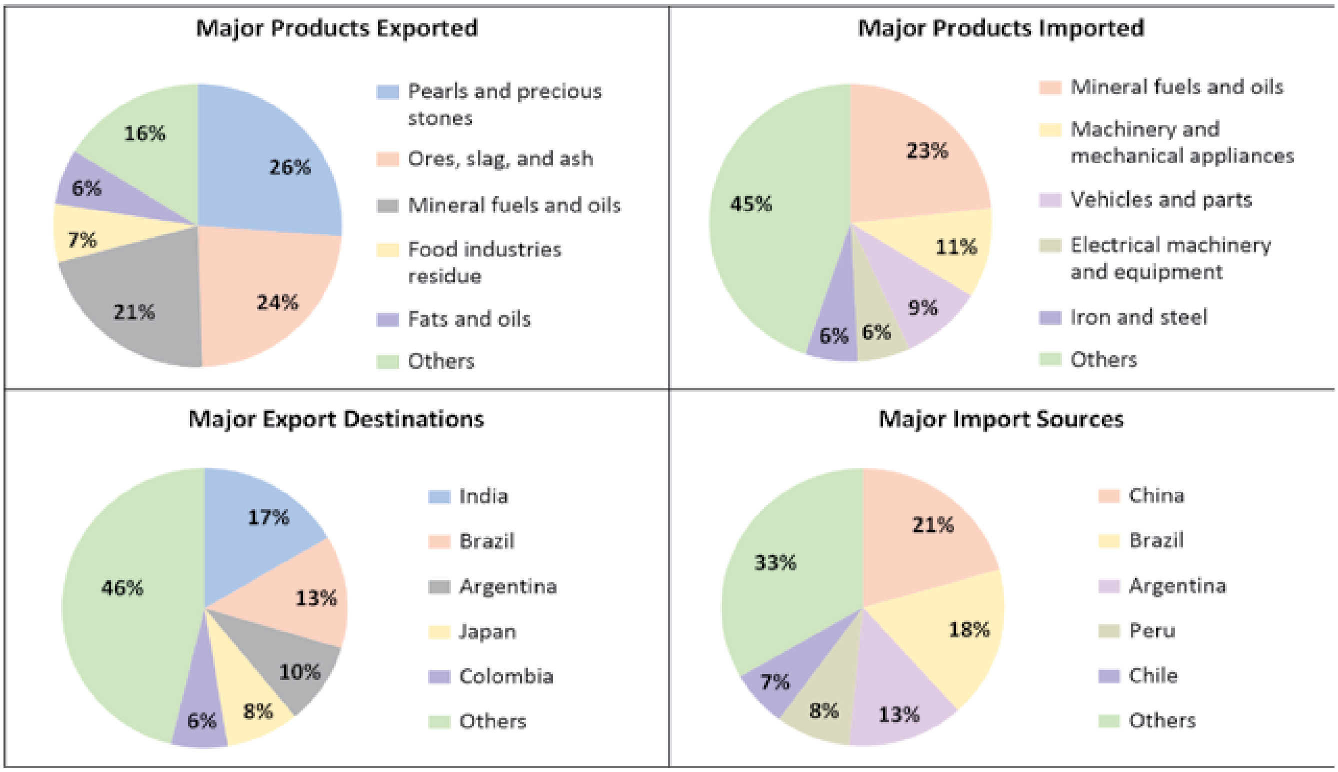
With respect to the export composition, Bolivia's exports are highly concentrated with the top three export categories contributing to more than 70% of total exports. Over one-fifth of exports are from 'pearls and precious stones' category, mostly comprising of gold. The second largest category is 'ores, slag, and ash' under which majority share is of zinc ores and concentrates. Silver ores and lead ores are also important export items. The third largest category is of mineral fuels and oils, within which 95% exports are of natural gas.

On the import side, mineral fuels and oil is the largest imported category with a share of over 23%. This is followed by machinery and mechanical appliances (10.5%), and vehicles (HS 87) (9.4%).

More than 16% of Bolivia's exports in 2021 went to India which is Bolivia's largest export destination. Almost 100% of Bolivia's exports to India are of gold. In fact, a decade ago, India had a trade surplus of US$ 45.8 million with Bolivia. In 2021, India had a trade deficit of (-) US$ 1828.5 million. India's exports to Bolivia are mostly concentrated around vehicles (HS 87) (47%) and pharmaceuticals (36%).

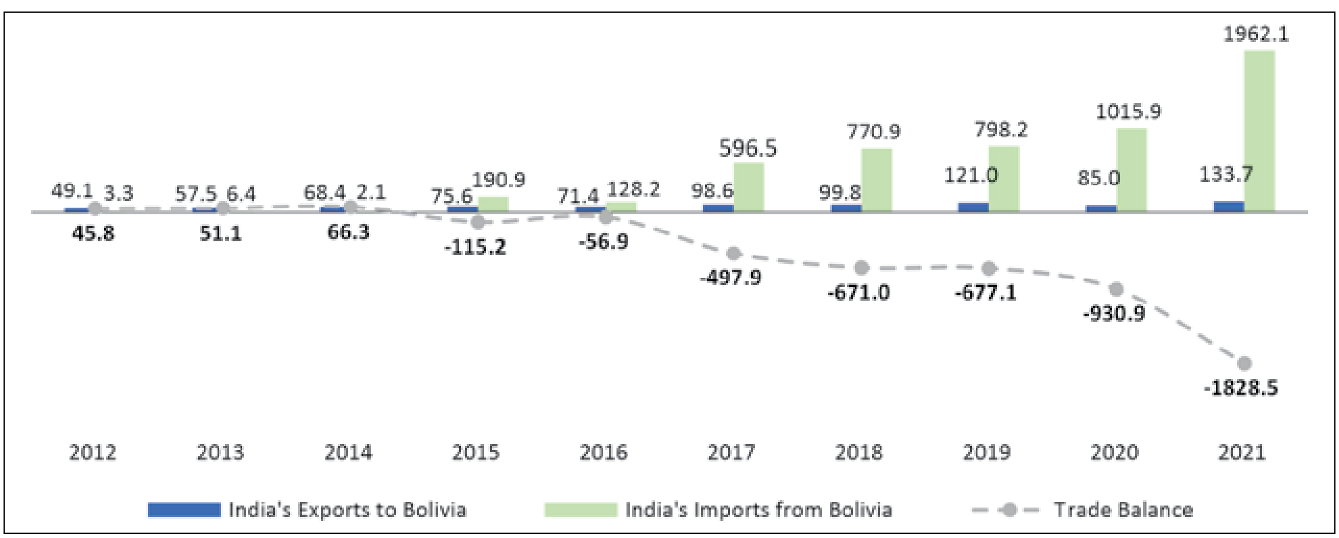
With respect to Bolivia's import sources, it is interesting to note that within the top five import sources, all are LAC countries, barring China which is the largest import source for Bolivia with a share of 20.6%.

Figure 3.35: Major Traded Products and Trading Partners of Bolivia: 2021



Source: ITC Trade Map; India Exim Bank Research

Figure 3.36: India-Bolivia Trade (in US$ Million)



Source: ITC Trade Map; India Exim Bank Research

Opportunities and Investment Climate

Bolivia, as an FDI recipient, has not had an impressive run. It received FDI amounting to US$ 8.4 billion, during the last two decades. India's FDI to Bolivia has also been insignificant. Pesticides company UPL has invested in Bolivia. Further, Tata Motors also has a dealership in Bolivia.

Bolivia is rated B2 (Highly speculative) by Moody's and has been ranked 126 out of 180 in corruption perception index by Transparency International. Bolivia has large reserves of various natural resources like tin, silver, lithium, and iron ore. It also has the second largest natural gas reserves in South America. This makes Bolivia an attractive destination for investments especially in these segments. Further, Bolivia has an increasing market size with GDP of the nation growing at an average of 3.8% during the last two decade vis-à-vis the LAC average of 2.3%. Some of the sectors that can be explored for investment purposes are energy, machinery and equipment, automotive, healthcare, etc.

India's TCI with Bolivia was 61.1% in 2021. With respect to the trade arrangements, Bolivia is a member of Andean Community (CAN) along with Colombia, Ecuador, and Peru. Bolivia is also an associate member of MERCOSUR and is in the process of accession.

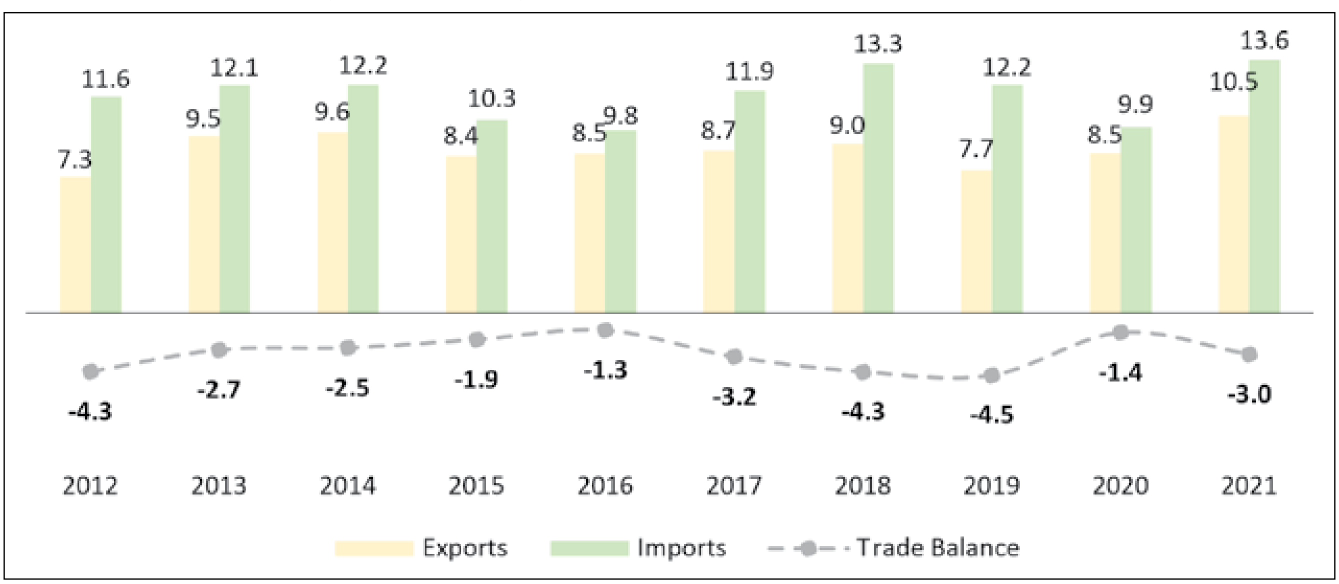
13. Paraguay

Paraguay has a GDP of over US$ 40 billion. Its GDP grew by an average of over 3.5% annually, during 2012 to 2021. However, Paraguay's economy in 2022 was projected to grow at only 0.2%. As far as the inflation is concerned, the average CPI grew at almost the same rate as GDP, during the last decade. In 2022, the inflation was estimated at 9.5%. Paraguay's general government debt as a percent of GDP has increased from 12% in 2012 to 37.7% in 2021, however, it remains well within a comfortable range.

Trade

The total trade of Paraguay, during the last decade, increased from US$ 18.8 billion in 2012 to US$ 24.1 billion in 2021, recording an AAGR of 3.6%. Paraguay registered a more impressive growth on the export front than the import. The exports of Paraguay grew from US$ 7.3 billion in 2012 to US$ 10.5 billion in 2021, registering an AAGR of 5.1%. On the other hand, the imports recorded an AAGR of 3.1%, during the same period. The trade deficit of Paraguay has fallen from US$ 4.3 billion in 2012 to US$ 3 billion in 2021.

Figure 3.37: Paraguay's International Trade (in US$ Billion)



Source: ITC Trade Map; India Exim Bank Research

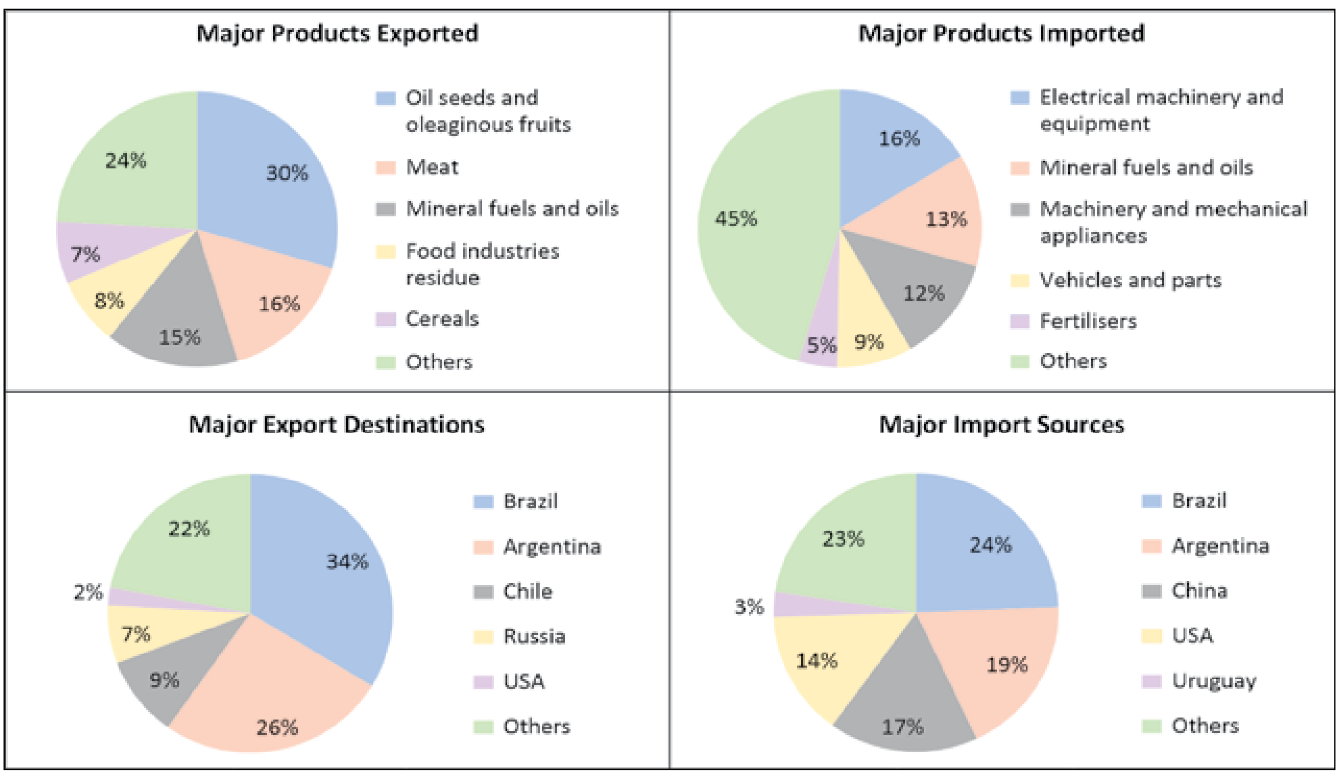
In 2021, over 28% of Paraguay's exports were of soyabeans. This was followed by meat exports which contributed to around 16% of Paraguay's exports. The third largest exported category was of mineral fuels and oils under which all exports were of electrical energy (HS 2716).

Within imports, the largest imported category in 2021 was of electrical machinery and equipment, under which majority imports were of telephone sets. The other major imported categories were mineral fuels and oils, and machinery and mechanical appliances.

Over one-third of Paraguay's exports went to Brazil in 2021 and another 26% went to Argentina. More than 34% of Paraguay's exports to Brazil were of electrical energy. Other important items were maize (14.4%) and rice (6%). With respect to Argentina, 50% of Paraguay's exports were of soya beans. Another 21% consisted of electrical energy. Other important export destinations for Paraguay were Chile, Russia, and USA.

On the import front, almost one-fourth of Paraguay's imports are sourced from Brazil with 15% of these imports being of machinery and mechanical appliances. Vehicles (HS 87) constituted another 11%, followed by plastics and articles at 7%. From Argentina, which is the second largest import source, Paraguay's imports are concentrated (57%) towards mineral fuels and oils. China (share of 17%) is also a major import source for Paraguay and the imports from China are significantly diversified.

Figure 3.38: Major Traded Products and Trading Partners of Paraguay: 2021

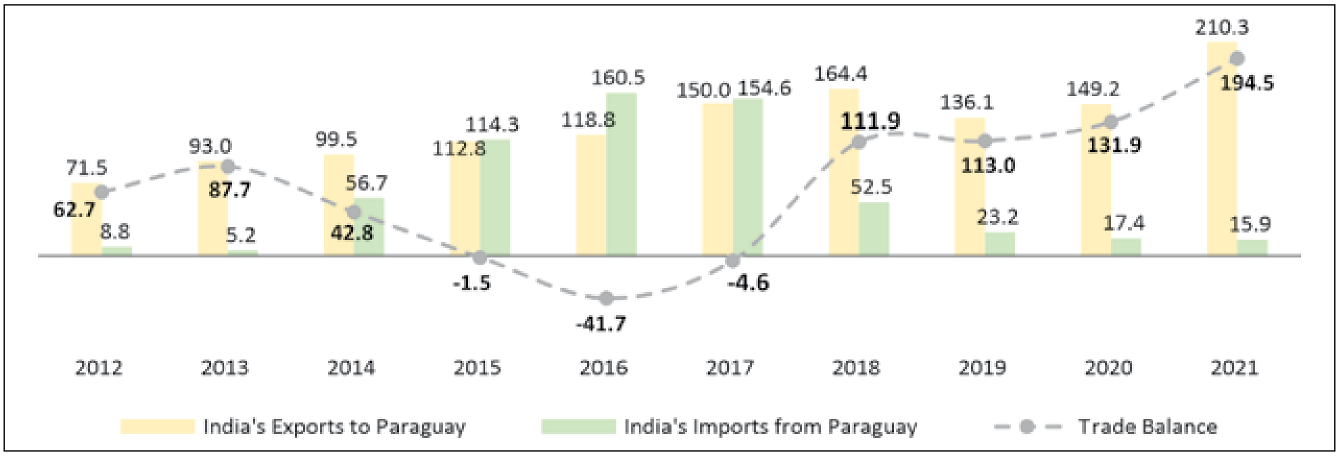


Source: ITC Trade Map; India Exim Bank Research

India is the eighth largest export destination and sixth largest import source for Paraguay. India's total trade with Paraguay has shown an impressive growth during the last decade. The trade increased from US$ 80.2 million in 2012 to US$ 226.2 million in 2021, registering an AAGR of 16%. India's exports to Paraguay increased from US$ 71.5 million in 2012 to US$ 210.3 million in 2021, recording an AAGR of 13.9%. During the last decade, India's trade surplus with Paraguay increased from US$ 62.7 million in 2012 to US$ 194.5 million in 2021.

In 2021, almost 30% of India's exports to Paraguay were of iron and steel. Another 13% were of agro chemicals like insecticides, rodenticides, fungicides, herbicides etc. Motor cars also constituted 7% of India's exports to Paraguay. With respect to imports, over 44% of India's imports from Paraguay in 2021 were of ferrous scrap, followed by aluminium scrap (23.4%). Essential oils is another major imported item (13.4%).

Figure 3.39: India-Paraguay Trade (in US$ Million)



Source: ITC Trade Map; India Exim Bank Research

Opportunities and Investment Climate

Paraguay has grown at an average of over 3%, during the last decade and has an upper middle income country status with a GNI PC of over US$ 5700. The country has been rated Ba1 (Non-investment grade speculative) by Moody's. India has also been expanding its footprint in the country. Companies like AlokMasterbatches have invested in Paraguay. Mahindra also distributes its vehicles through local dealership.

Paraguay is rated Ba1 (Non-investment grade speculative) by Moody's and has been ranked 137 out of 180 in corruption perception index by Transparency International. The country's macroeconomic stability and the different incentives provided by the government are key factors in luring investment. Other factors include the abundance of rich land and a surplus of energy in Paraguay. In fact, agribusiness and food production sector is the area with the highest potential. Paraguay's geographical location provides a platform for industrial production along with the access to the markets of the LAC region.

Additionally, the Paraguayan government has a National Development Plan 2030 with the goal of being a global leader in food production. Investment and Export Network (REDIEX) is Paraguay's export and investment promotion agency which has an objective to internationalize the country's economy through luring foreign investment and fostering exports. Agriculture, food processing, construction, transportation, waterways, and maquila (factories that are duty free) assembly and distribution activities are some of the main industries that might be explored for investment.

It should be mentioned that Paraguay has a special benefit under the Mercosur agreement, which permits items to be marketed as "made in Paraguay/Mercosur" with a minimum requirement of only 40% locally produced content.

India's TCI with Paraguay in 2021 was 59.4% in 2021, which is a little lower than the LAC average. However, Paraguay provides access to important markets in the LAC region. Paraguay is a member of MERCOSUR and India has a PTA with MERCOSUR. Further, Paraguay is also a member of Latin American Integration Association (ALADI) through which it gets preferential trading access.

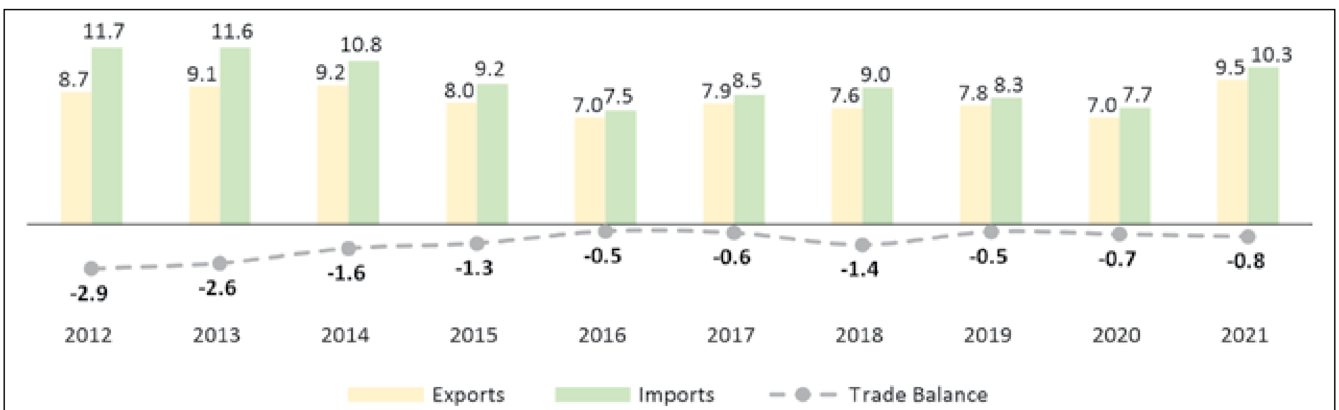
14. Uruguay

Uruguay has a GDP of more than US$ 54 billion at constant 2015 USD and contributes nearly 1% to the LAC's economy. Over the period of 2012 to 2021, Uruguay's average GDP growth was 1.8%, while inflation averaged much higher at 8.3%. In 2022, inflation was estimated to be 9.1% vis-à-vis the GDP growth of 4.4%. Additionally, Uruguay's general government debt as a percentage of GDP remains at around 65%, up from around 50%, a decade ago. Furthermore, the estimated unemployment rate in Uruguay remains high at almost 9%.

Trade

Uruguay's total trade has remained almost stable during the last decade. It has rather decreased marginally from US$ 20.4 billion in 2012 to US$ 19.8 billion in 2021. While its exports grew at an average of 1.9% from US$ 8.7 billion to US$ 9.5 billion, the imports decreased at an average of (-) 0.2%, from US$ 11.7 billion to US$ 10.3 billion. Uruguay has narrowed down its trade deficit from (-) US$ 2.9 billion in 2012 to (-) US$ 0.8 billion in 2021.

Figure 3.40: Uruguay's International Trade (in US$ Billion)



Source: ITC Trade Map; India Exim Bank Research

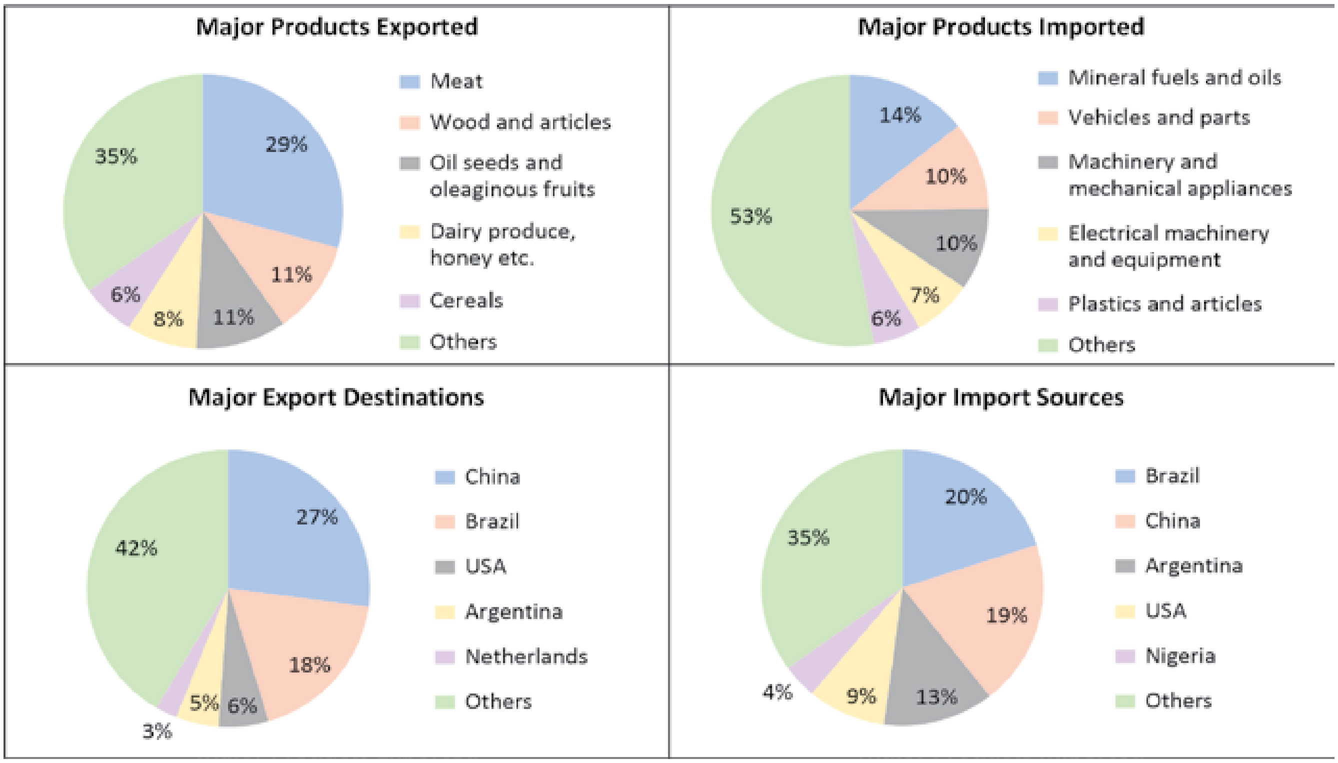
Almost 30% of Uruguay's exports in 2021 were of meat, followed by wood and its articles with a share of 11%. For wood, 47% exports were of eucalyptus and another 12% were of pine. Further, oil seeds and oleaginous fruits is the third largest exported category from Uruguay, which is largest dominated by soyabeans.

With respect to the imports, mineral fuels and oils forms the largest category of imports at over 14%, out of which three-fourths is crude oil imports. Another important category (10.5%) is of vehicles (HS 87). Under this category, passenger cars (36%) are the largest segment.

China and Brazil are the largest export destinations for Uruguay with shares of 27.1% and 18.3%, respectively. 67% of Uruguay's exports to China are of meat. On the other hand, the exports to Brazil are quite diversified with electrical energy, malt, motor vehicles etc. being the top export items.

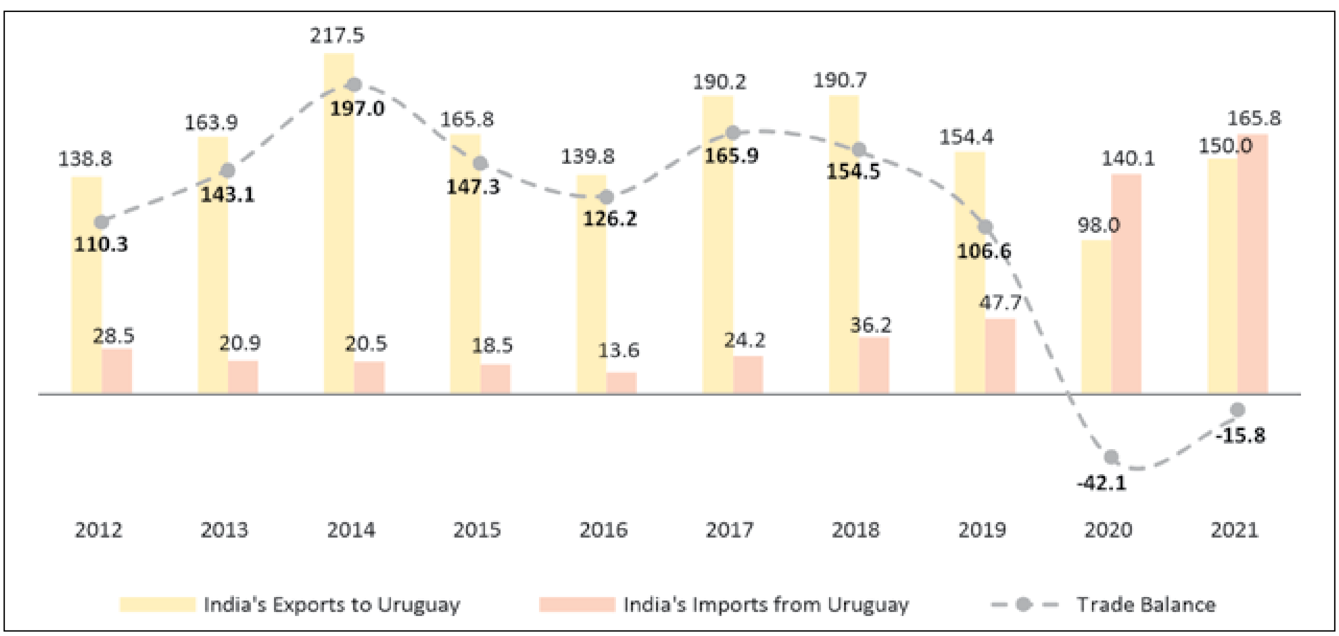
Brazil (20%) and China (19.4%) are also the largest import sources for Uruguay. While the imports from Brazil are significantly diversified, major items include automobiles, meat, and plastics. On the other hand, from China, Uruguay's imports telephone sets, agro chemicals, vehicles, etc.

Figure 3.41: Major Traded Products and Trading Partners of Uruguay: 2021



Source: ITC Trade Map; India Exim Bank Research

Figure 3.42: India-Uruguay Trade (in US$ Million)



Source: ITC Trade Map; India Exim Bank Research

The total trade between India and Uruguay has almost doubled during the last decade from US$ 167.2 million in 2012 to US$ 315.9 million in 2021, recording an AAGR of 9.5%. While India's exports recorded an AAGR of 5% during this period, it was India's imports from Uruguay with an AAGR of 34%, which pushed the overall growth. India recorded a trade deficit of (-) US$ 15.8 million with Uruguay in 2021, down from a surplus of US$ 110.3 million in 2012. 90% of India's imports from Uruguay in 2021 were of wood and articles. This category's share in 2012 was just 15%, a decade ago. With respect to the exports, India's largest exported categories to Uruguay consist of vehicles and parts (19%), iron and steel (17.6%), and organic chemicals (14.2%).

Opportunities and Investment Climate

Uruguay has the highest GNI per capita in the LAC region at over US$ 16000 and the country has been rated Baa2 (Lower medium grade) by Moody's. It may be noted that 1.1% of India's ODI to LAC has gone to Uruguay in the last two decades, as per Ministry of Finance, Government of India. Indian IT giant TCS has a software development centre and regional training centre in Uruguay.

Uruguay is one of the most business-friendly nations in Latin America and has been ranked 14 out of 180 in corruption perception index by Transparency International. According to the World Bank's Gini Index study, Uruguay also has one of the most equally distributed income distributions in Latin America. Further, it may be noted that Uruguay's democratic institutions are robust, and there is very minimal corruption. Some of the top sectors that can be explored for investment are ICT, healthcare, renewable energy, agriculture equipment, and infrastructure.

India's TCI with Uruguay was 63.4% in 2021, indicating a fair alignment in India's exports and Uruguay's imports. With respect to the trade agreements, Uruguay is member of ALADI (provides preferential tariff access) and in fact, has the headquarters of this trade association. It is a member of MERCOSUR and also signed an FTA with Chile in 2016. It is important to mention that China and Uruguay have enhanced their bilateral trade, investment, and political connections during the last decade. Uruguay was in fact, the first nation in the Southern Cone to join the Belt and Road Initiative of China in 2018. Uruguay has also declared its intention to sign an FTA with China.

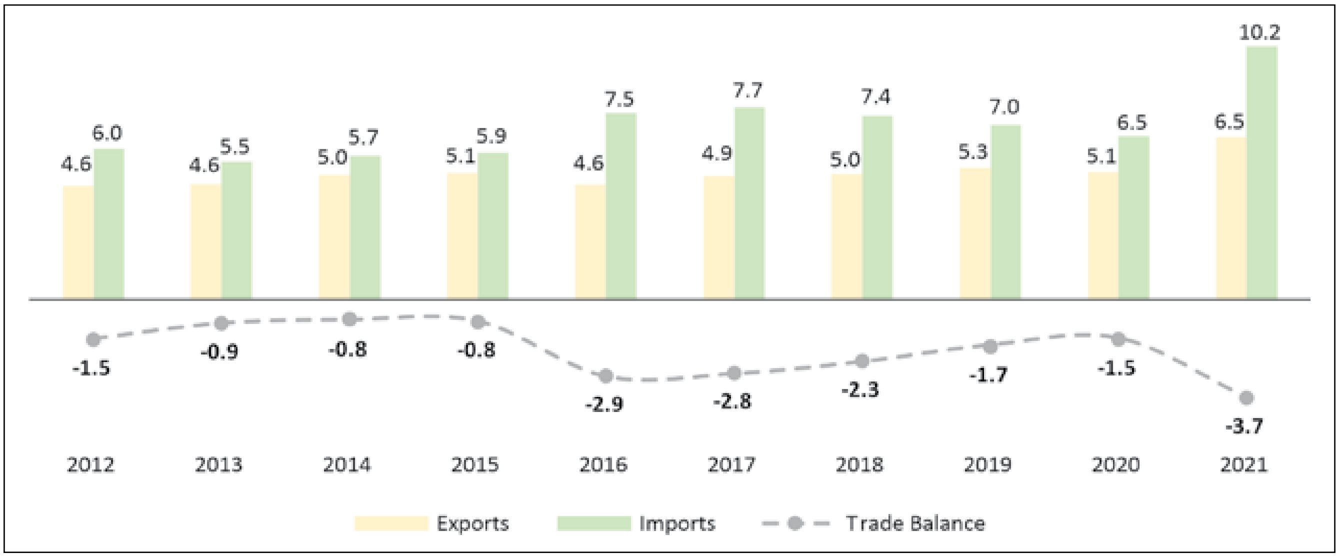
15. Nicaragua

Nicaragua's GDP was recorded at just under US$ 15 billion in 2021 and recorded a growth of more than 10% over 2020. During 2012 to 2021, the GDP of Nicaragua registered an AAGR of approximately 2.8%. The GDP is estimated to have grown by 4% in 2022, as per the IMF. Further, in 2022, the inflation was estimated at almost 10%, while during 2012 to 2021, the inflation growth averaged 4.8%.

Trade

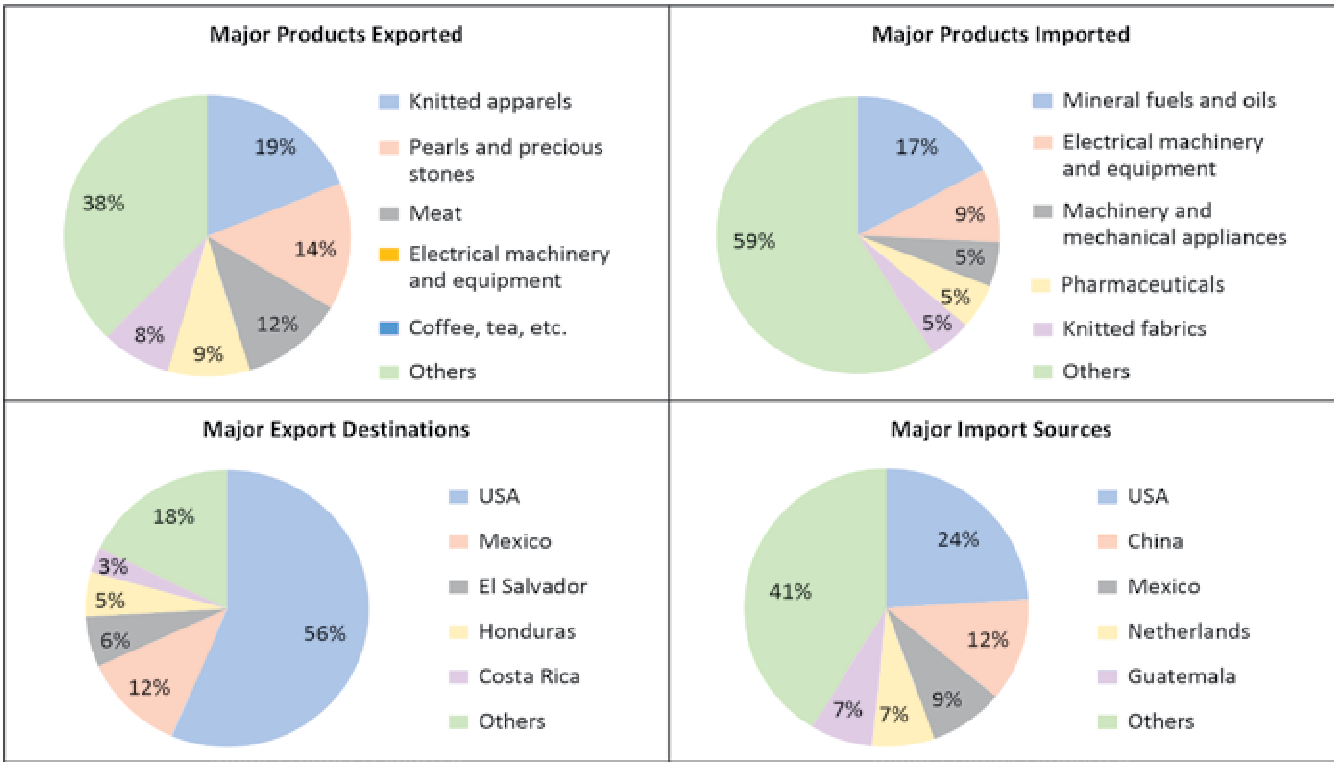
The total trade of Nicaragua has grown from US$ 10.6 billion in 2012 to US$ 16.7 billion in 2021, thereby growing at an average of 6%, annually. The imports have however grown faster than the exports. It is important to mention that the year 2021 had high export (27.7%) and import (55.3%) growth. From 2012 to 2020, both exports and imports grew by 1.5%. Nicaragua's trade deficit increased from US$ 1.5 billion in 2012 to US$ 3.7 billion in 2021.

Figure 3.43: Nicaragua's International Trade (in US$ Billion)



Source: ITC Trade Map; India Exim Bank Research

Figure 3.44: Major Traded Products and Trading Partners of Nicaragua: 2021



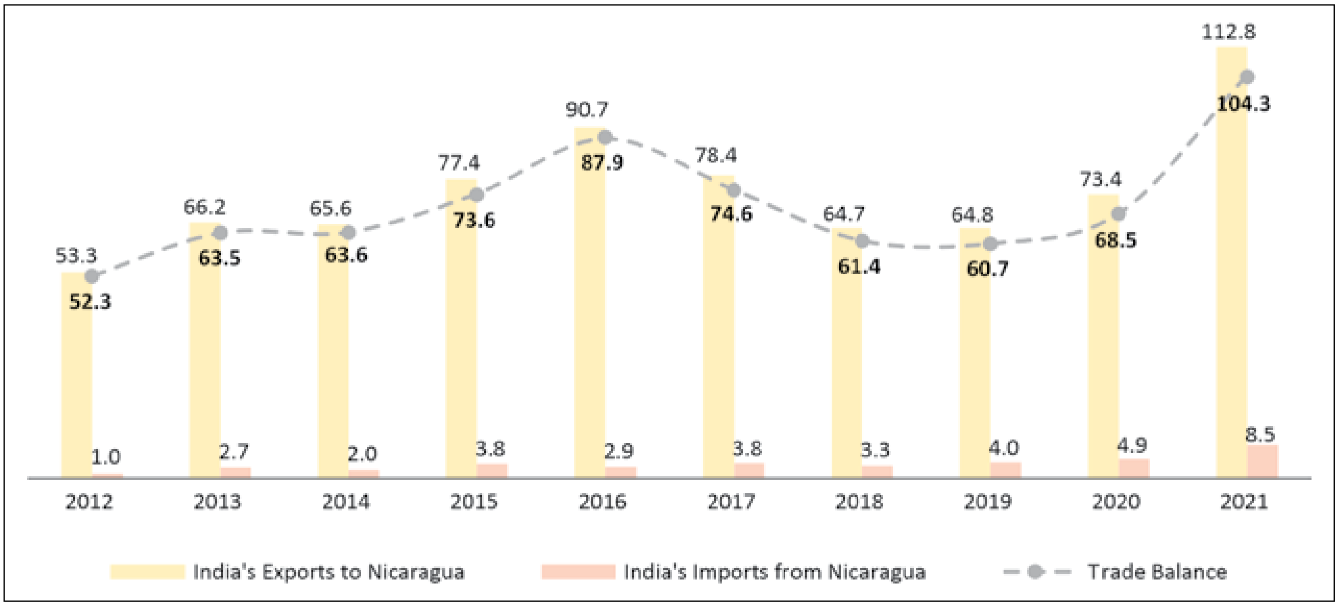
Source: ITC Trade Map; India Exim Bank Research

Knitted apparels is the biggest export category for Nicaragua with 19% share in 2021. It is followed by pearls and precious stones within which gold accounts for almost all the exports. With respect to the imports, the largest imported category was of mineral fuels and oils in 2021. Under electrical machinery and equipment, which is the second largest category, imports are dominated by wires and cables, rotary converters, and electrical apparatus.

Majority of Nicaragua's exports are bound for USA. After USA, the next top five destinations are all in the LAC region. As far as import sources are concerned, USA accounts for almost one-fourth of Nicaragua's imports and is interestingly followed by China with a share of 12%. While almost 34% of Nicaragua's imports from USA are of mineral fuels and oils, the imports from China are much more diversified.

The India-Nicaragua trade was recorded at US$ 121.3 million in 2021, up from US$ 54.3 million in 2012. The trade has registered an AAGR of 11.2%, during this period. The total trade recorded a growth of 55% in 2021 over 2020. India's trade surplus with Nicaragua was almost double in 2021 vis-à-vis 2012. Approximately 30% of India's exports in 2021 were of vehicles (HS 87), followed by pharmaceuticals with a share of 22%. On the import front, 54% of India's imports from Nicaragua are of wood and articles.

Figure 3.45: India-Nicaragua Trade (in US$ Million)



Source: ITC Trade Map; DGCIS; India Exim Bank Research

Opportunities and Investment Climate

Nicaragua's GDP has almost doubled in the last two decades. The country has been rated B3 (Highly speculative) by Moody's and has been ranked 167 out of 180 in corruption perception index by Transparency International. However, it is important note that Nicaragua is rich in various natural resources like gold, silver, zinc, copper, iron ore etc., most of which has not been exploited much due to the lack of funds. At the same time, the country also offers numerous opportunities for tourism sector.

There are downsides involved as well with respect to investing in Nicaragua. The country has high corruption and just US$ 1950 of GNI per capita. But one of the biggest advantages of investing in Nicaragua is that the country is a member of Central America Free Trade Agreement-Dominican Republic (CAFTA-DR).

India's trade complementary index (TCI) with Nicaragua was at 68.9% in 2021, amongst the highest in the major countries of LAC, showing significant scope of trade between India and Nicaragua. It may also be mentioned that Nicaragua is a part Central America's FTAs with EU and South Korea and is also a part of Bolivarian Alternative for the Americas (ALBA).

Chapter 4

Firm based review of Indian Companies in Latin America and Caribbean Region

In the preceding chapters, the Study has attempted to evaluate the macroeconomic conditions of identified economies in LAC region which exhibit potential and opportunity for investments by Indian companies. The commercial conditions in these economies along with trade scenario and investment policies were discussed in Chapter 3. However, to understand, the ground level situation, it was also felt important to undertake a firm level review of Indian companies operating in LAC.

Survey of Indian firms operating in LAC: Methodology and Limitations

Given the above-stated objective, this chapter attempts to summarize the findings of the survey undertaken by Exim Bank of the Indian firms operating in the LAC region. Exim Bank's survey was based on two parameters, one, the pre-investment considerations, which involves important factors that companies consider before venturing abroad, and secondly, post-investment experience of these companies in LAC. The survey was successful in getting responses from close to 25 companies operating across various economies in the LAC region.

The select factors that were a part of the survey under pre-investment considerations included resource availability, market availability, government policies, bureaucracy, etc. On the other hand, the post-investment aspects included human resources, impact of Investment made abroad on parent company, treatment in host country, institutional efficiency, amongst others. The responses for pre-investment factors were received on a scale of one to five, with five being the highest in the levels of importance. Likewise, post investment experience was also ranked from one to five, with five being the most favourable.

There are also some limitations to the survey. For instance, some companies operate in more than one LAC economy. While their experience might be different for diverse economies, their views in the survey may be based on the collective experience of operating in LAC. Further, there are issues where either the firm is not able to answer or there is a non-applicability of that question to the particular firm. In such cases, the total number of responses may differ. However, the objective of the survey is to identify a general direction of investment climate in the LAC region as a whole, as perceived by Indian companies, and not specifically of an economy.

Summary of the Survey

Pre-Investment Considerations

Resource Availability

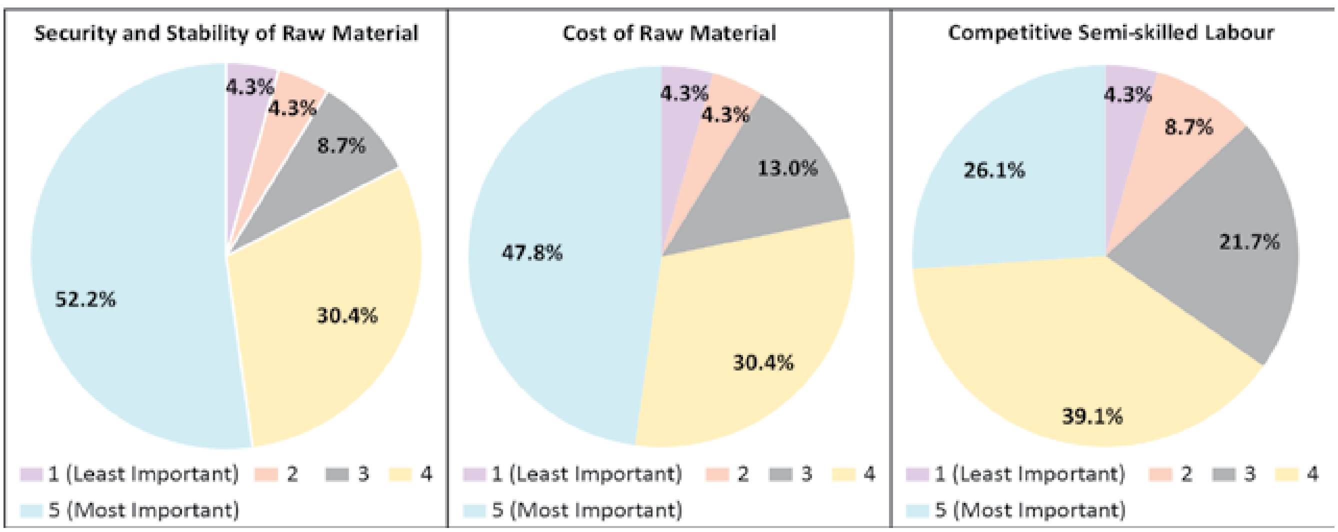
When investing abroad, it's important to take resource availability into account. This is due to the fact that the availability of resources may have a significant impact on an investment's profitability and sustainability.

The cost of conducting business abroad can also be impacted by resource availability. For instance, the firm's profitability may suffer from an unstable energy supply. Likewise, a workforce shortage may raise the company's operating expenses. If resources are few, even the sustainability of investments may be affected. For instance, the company may face social and environmental difficulties if there is limited access to fresh water.

This is also reflected in the findings of the survey. 52.2% of the respondents attributed the highest level of importance (5) to security and stability of raw material before investing into a country.

With respect to the cost of raw materials, 78.2% of the respondents believed this factor to be of high importance (4 and 5).

Figure 4.1: Survey Findings: Pre-Investment Factors - Resource Availability



Source: India Exim Bank Research

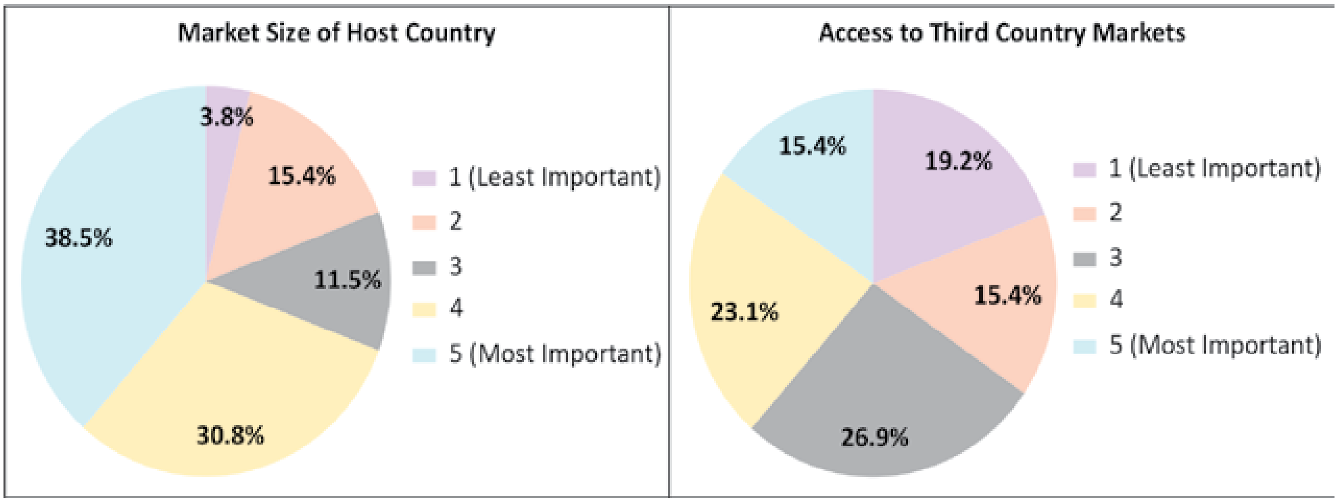
Market Availability

When making an international investment, market accessibility is another crucial factor. It refers to the size of the market and the level of demand in the local market for the item or service that a company plans to invest in.

Investing in a foreign country with a sizable and expanding market might provide several prospects for expansion and financial success. A large market means there are more potential customers, which can help to drive sales and revenue. An expanding market also suggests that the demand for the goods or services is probably going to rise, which can assist in securing long-term success.

Additionally, it should be emphasized that the company also gains from the trade agreements of the nation where it is investing. A trade agreement between a nation and another country/region instantly expands the size of the market to which a company is catering.

Figure 4.2: Survey Findings: Pre-Investment Factors - Market Availability



Source: India Exim Bank Research

The findings of the survey reveal that the market size of host country is of high importance for the potential investors with 38.5% of respondents giving this factor the level of highest importance. With respect to access to the third country markets, it is observed that this factor is important; however, the views of the respondents are divided on this. As a result, it could be deduced that the primary reason for investment is the size of the host country, while the benefits accruing from the trade agreements may not be the sole criteria for investment.

Government Policies in the Host Country

The capacity of an organization to function and generate profits can be considerably impacted by the regulatory climate in a foreign country. A company's financial performance may be impacted by host nation's government policies including taxation, employment laws, environmental restrictions, and licensing requirements.

Attractive inward investment policies of the host country play a crucial role in inviting investments. 50% of the responses are in the most important category (5). Another major aspect is the repatriation, which is also considered important (4 and 5) by 69.3% respondents.

Table 4.1: Survey Findings: Pre-Investment Factors - Government Policies in the Host Country

Level of Importance	Attractive Inward Investment Policy	Repatriation in host country	Favourable Tax Regulation	Strong Legal and Property Rights	Inclusion of 'Exit Clause' in JVs
1 (Least Important)	11.5%	7.7%	3.8%	11.5%	7.7%
2	7.7%	11.5%	3.8%	7.7%	11.5%
3	11.5%	11.5%	15.4%	7.7%	15.4%
4	19.2%	23.1%	34.6%	42.3%	26.9%
5 (Most Important)	50.0%	46.2%	42.3%	30.8%	38.5%

Source: India Exim Bank Research

Institutional Efficiency and Bureaucracy

When investing overseas, it is essential to take bureaucracy and institutional effectiveness into account. These are crucial elements of the general business climate of a foreign nation. A well-functioning bureaucracy may produce a predictable and steady business climate that encourages investment, but a bureaucracy that is not performing effectively can produce uncertainty and inefficiency and make doing business more challenging.

On the expected lines, macroeconomic stability is attributed high importance by the respondents. Further, given that the respondent companies are operating in LAC and the region has seen various conflicts in the last few decades, 43.5% of the respondents have assigned the highest level of importance to political stability factor before making an investment. Additionally, the legal system is also given significant importance (4 and 5) by 78.3% of the respondents.

Table 4.2: Survey Findings: Pre-Investment Factors - Institutional Efficiency and Bureaucracy

Level of Importance	Macro-economic stability	Political stability	Time taken to receive necessary approvals	Corruption and bribery	Land acquisition procedures in host country	Legal system	Access to host country financial markets
1 (Least Important)	4.3%	4.3%	4.3%	4.3%	4.3%	8.7%	8.7%
2	8.7%	4.3%	4.3%	8.7%	4.3%	4.3%	26.1%
3	13.0%	13.0%	17.4%	21.7%	21.7%	8.7%	30.4%
4	39.1%	34.8%	39.1%	26.1%	43.5%	60.9%	17.4%
5 (Most Important)	34.8%	43.5%	34.8%	39.1%	26.1%	17.4%	17.4%

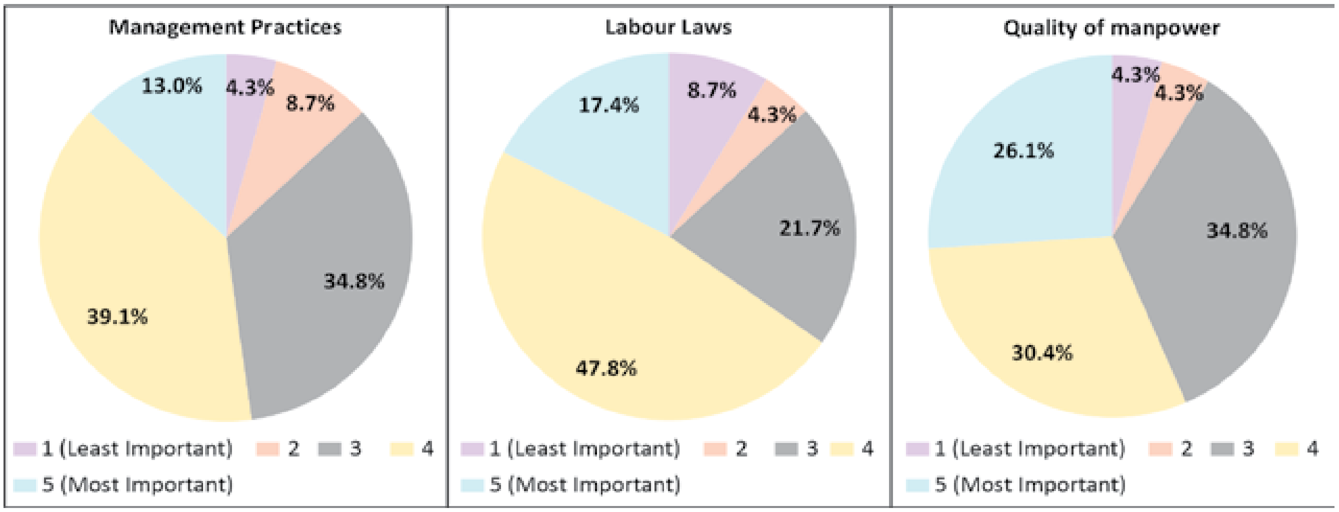
Source: India Exim Bank Research

Human Resources

Furthermore, local labour laws, which might differ greatly from one country to the other, are frequently used to guide the management of human resources in overseas nations. For a company to be compliant and be able to prevent any legal problems that can interfere with operations, it is essential to understand these requirements. A successful investment in a foreign nation requires a grasp of the variations between various cultural human resource practices. When managing a global workforce, cultural variations must be taken into consideration since they may have an impact on everything from recruiting procedures to communication techniques.

The survey reveals that the three parameters, namely, management practices, labour laws, and quality of manpower, under the human resources segment are important. However, the response concentration for all three aspects are between 3 and 4 (level of importance), signifying that these factors are considered important only to a certain extent.

Figure 4.3: Survey Findings: Pre-Investment Factors - Human Resources



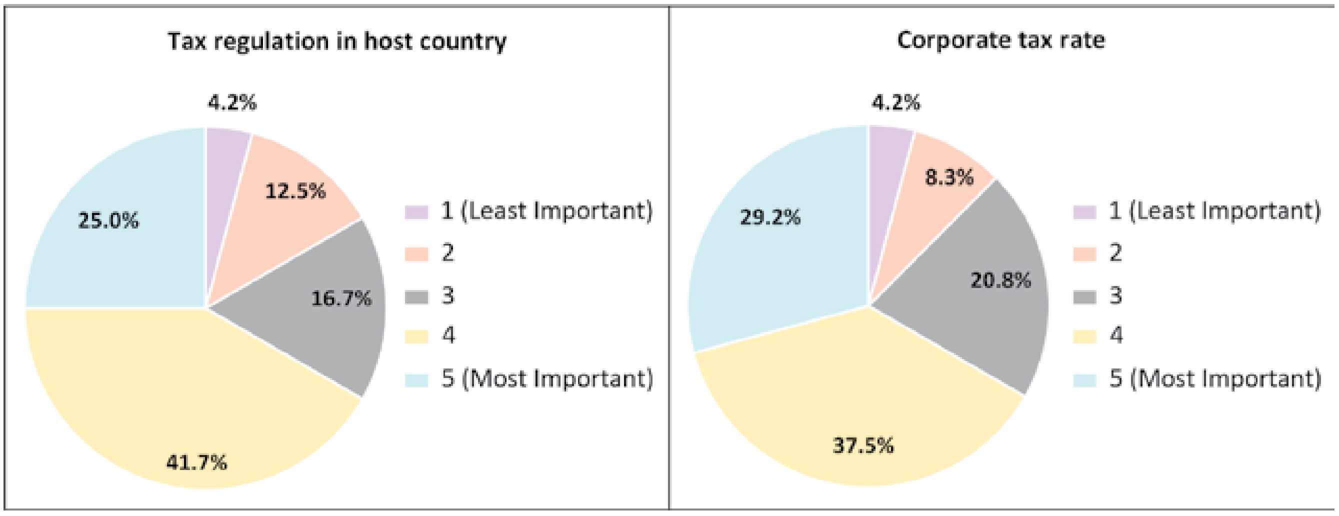
Source: India Exim Bank Research

Taxation Policies

To evaluate the financial impact of an investment, it is critical to comprehend the tax laws of the host nation. Different countries have different tax rates. To prevent double taxation, several nations also have bilateral tax agreements. To avoid paying taxes on the same income twice, it is vital to understand the tax regulations of both the home and host nations. In addition, several nations provide tax breaks to foreign investors, which can lower their tax obligations and boost their investment's profitability. Investors can make better choices if they are aware of the various tax benefits.

The survey reveals that there is high level of importance attached to both the tax regulation in the host country and corporate tax rate before the companies decide to invest in the country. 25% of respondents consider tax regulations in the host country as the most important factor, while 29.2% consider corporate tax rate amongst the key pre-investment criteria determining their investments.

Figure 4.4: Survey Findings: Pre-Investment Factors – Taxation Policies



Source: India Exim Bank Research

Post-Investment Experience

For an entity that has made investments abroad, assessing the post-investment experience is crucial to understand its experience in doing business in the region. Businesses often make an effort to evaluate the anticipated returns on their investments. A business may maximize profits and accomplish its investment goals with the aid of proper investment management and monitoring.

Box 2: Success Story: UPL in Latin America

UPL (formerly known as United Phosphorus Limited) is an Indian multinational company that specializes in agrochemicals and crop protection solutions. The company has experienced significant success in Latin America, establishing a strong presence and becoming one of the leading players in the region's agricultural market.

Amongst all the major regions, UPL has the highest number of products in Latin America at 535. In India, the company offers 166 products. Such is the success of the company in the region that Latin America generates the highest revenue for the company at ₹ 18,039 crore (FY 22), with a share of 40% in its total revenue. India has a share of only 12%. Its sales have grown from ₹ 5,692 crore in FY 18 to ₹ 18,039 crore in FY 22, a jump of more than 3 times. Today, the company has a market share of 25% in Latin America.

UPL recognized the growth potential of Latin America's agriculture sector early on and made strategic investments in the region. The company started its operations in Latin America in the late 1990s and gradually expanded its presence by acquiring local companies and establishing partnerships.

Further, UPL's product portfolio is tailored to meet the specific needs of Latin American farmers, who cultivate a wide range of crops such as soybeans, corn, coffee, sugarcane, and fruits. UPL's comprehensive product offerings have played a key role in its success in the region. The company's consistent partnerships and collaborations over the years have also played a key role in its success. For instance, in 2020, UPL entered into a commercial agreement with Agrospec, Chile to access key active ingredients. In May 2023, UPL announced a collaboration with the Republic of Guyana to establish a 200-acre 'Millets Model Farm'. Under the partnership, UPL will provide technical expertise and the country will provide land parcels.

UPL has built a robust distribution network across Latin America, comprising a combination of direct sales, distributors, and channel partners. This extensive network ensures the availability of UPL's products in remote rural areas and allows the company to reach a large customer base. The strong distribution network has been instrumental in driving UPL's market penetration and sales growth in the region.

Overall, UPL's success in Latin America can be attributed to its focus on understanding local needs, developing tailored solutions, building strong partnerships, and maintaining a customer-centric approach. By leveraging its expertise, UPL has established itself as a major partner for farmers in the region, contributing to their productivity and success.

Source: UPL Annual Reports; India Exim Bank Research

Additionally, developing relationships with stakeholders including suppliers, consumers, and local authorities is necessary when investing in another nation. The company must periodically assess these connections in order to successfully manage the difficulties of conducting business abroad.

Table 4.3: Survey Findings: Post-Investment Experience – Stability and Procedures

Satisfaction Level	Macroeconomic Stability	Political Stability	Land Acquisition Procedures	Legal System
1 (Least Favourable)	4.5%	13.6%	4.50%	13.6%
2	13.6%	4.5%	13.60%	4.5%
3	27.3%	27.3%	55.80%	22.7%
4	36.4%	31.8%	26.10%	36.4%
5 (Most Favourable)	18.2%	22.7%	9.1%	22.7%

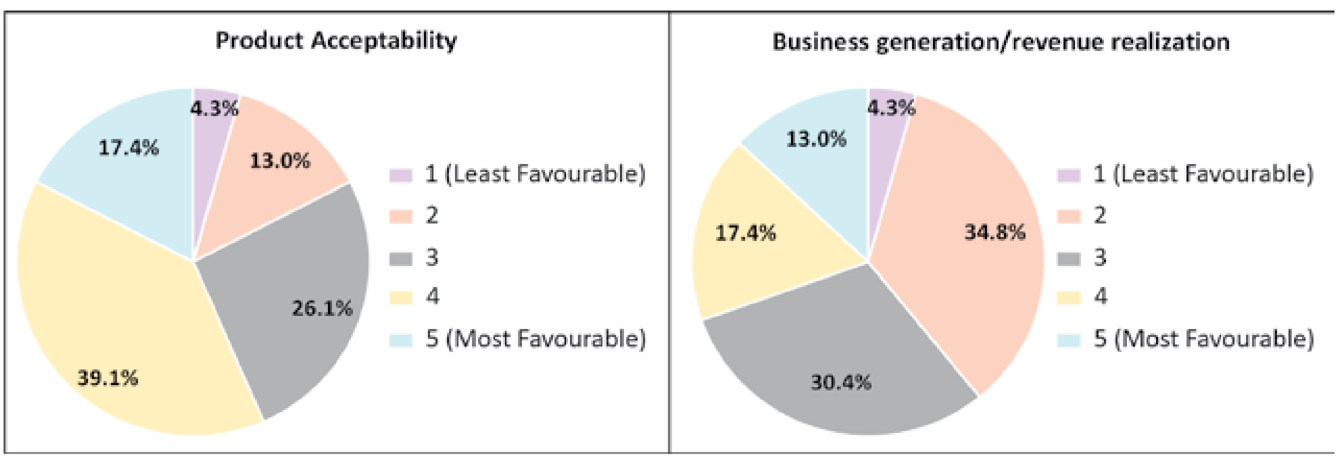
Source: India Exim Bank Research

LAC region scores modestly on the aspect of macroeconomy, where 54.6% of the respondents placed LAC in a zone (4 and 5) having favourable economic conditions. Political stability on the other hand differs from country to country – however, around 18.1% respondents said that the macro-economic conditions are unfavourable (zone 1 and 2). Very few respondents have assigned scoring level 5, meaning that the countries are not in highest favourable spot. Some of the respondents have cited land acquisition as a major hurdle for foreign investors.

Market

Prior to entering any overseas market, a corporation must determine the size of the market. However, there are instances when the actual situation might alter significantly as a result of many causes, such as shifting policies, escalating competition, shifting consumer preferences, etc. This parameter makes an effort to comprehend how these enterprises have fared in the LAC market.

Figure 4.5: Survey Findings: Post-Investment Experience – Market



Source: India Exim Bank Research

The LAC market has been favourable to Indian companies investing there, in terms of product acceptability, with 56.5% of the responses assigning either 4 or 5. This is largely in line with the expectation that LAC is a growing market, and its needs are similar to what India has seen or is presently experiencing. However, with respect to the revenue realization, a long road lies ahead for Indian businesses, as only 30.4% of the respondents are assigning either 4 or 5. This could be because of the competition that Indian firms face from countries like the USA and China.

Labour and Tax Regime

The availability of human resources has a significant impact on a company's operations. The components may include everything from a nation's employment laws to its quality of labour force. Additionally, a country's tax policy has an influence on the general business climate. The profitability of the corporations is hampered by a higher corporate tax rate.

Table 4.4: Survey Findings: Post-Investment Experience – Labour and Tax Regime

Satisfaction Level	Management practices	Labour laws	Quality of manpower	Corporate tax rate
1 (Least Favourable)	4.8%	9.5%	4.8%	9.5%
2	9.5%	14.3%	19.0%	14.3%
3	38.1%	33.3%	38.1%	28.6%
4	28.6%	19.0%	23.8%	28.6%
5 (Most Favourable)	19.0%	23.8%	14.3%	19.0%

Source: India Exim Bank Research

The findings from the survey point towards a significant scope for improvement in these segments. For all the four parameters mentioned above, significant concentration of responses lies in 3, meaning that while the situation is not extremely adverse, there is a room for better labour and tax regime.

Future Investments and Select Challenges

According to the survey, joint ventures are anticipated to be the most common way for Indian enterprises to invest outside of India in the upcoming years. This can be a result of the multiple challenges that the Indian companies face in markets like LAC. For instance, distinct language and cultures is a big challenge for Indian companies operating in LAC. Greenfield investments and acquisitions are the other popular routes. Brazil, Colombia, Guyana, Mexico, and Argentina are the top economies where businesses want to invest, as per the survey.

Box 3: Success Story: TCS in Latin America

Tata Consultancy Services (TCS) has made significant strides in Latin America, establishing a strong presence. TCS initially entered Latin America in 2002, opening its first regional office in Uruguay. This marked the beginning of its journey to tap into the vast potential of the Latin American market. Uruguay, although having a cheaper cost structure, lacked the workforce necessary for scaling up. As a result, TCS entered into two joint ventures in the same year, one in Chile and one in Brazil. Today, TCS has offices in 16 cities of 9 countries in the LAC region and employees more than 25,000 people.

TCS has set up multiple local delivery centers across Latin America to provide its clients with proximity-based services and leverage the local talent pool. These centers have become crucial hubs for delivering IT solutions and services to clients in the region. The entry into the LAC region was driven by multiple objectives that the region solved. With the presence in LAC, TCS could serve US clients, especially for applications that needed to be serviced in the same time zone, it could cater to MNCs operating in LAC, and it could also service the regional companies of LAC region.

In FY 23, Latin America was the fastest growing geography for TCS with a growth rate of 17.3%, as compared to North America at 15.3%, UK at 15%, Continental Europe at 11%, India at 14.6%, APAC at 7.6%, and Middle east and Africa at 7.8%.

TCS's efforts and contributions to the Latin American IT industry have been widely recognized. The company has received numerous awards and accolades for its excellence in delivering IT services, fostering innovation, and promoting social responsibility in the region. In March 2020, TCS was ranked a Top Employer in Latin America by the Top Employers Institute, for the sixth consecutive year. Additionally, it was named the Number One Top Employer in Argentina and Chile, and a Top Employer in Brazil, Colombia, Ecuador, Mexico, Peru, and Uruguay.

TCS has successfully diversified its client base in Latin America, serving organizations across various industries such as banking and financial services, manufacturing, telecommunications, retail, and healthcare. Recently, in 2021, TCS also won a contract from Latin American airline, Avianca, for its cloud transformation journey. These diversification efforts have contributed to the company's sustained growth in the region.

Source: TCS Annual Reports; India Exim Bank Research

With respect to the challenges, 80% of the respondents are of the view that the time taken to receive the necessary approvals is a big challenge. However, only 45% of the respondents have experienced corruption and bribery issues. This shows that there is an efficiency challenge in LAC market and with enhancement in IT infrastructure and administration related issues, an improvement could be experienced with e-Governance in the coming years.

Further, competition in a growing market can be a significant concern. LAC has seen increasing China's involvement in the region, in the recent years. Almost 80% of the respondents feel that competition from China is a challenge and 90% feel that competition from developed countries is a challenge. This is because of the proximity of economies like the USA to the LAC region. However, with all the challenges existing, almost all the respondents are comfortable with the investment made in LAC and would like to invest in the same country again, given an opportunity. This points to the growing market size and improvement in other business conditions of LAC region.

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As part of its endeavour in enriching the knowledge of Indian exporters and thereby to enhance their competitiveness, India Exim Bank periodically conducts research studies. These research studies are broadly categorized into three segments, viz. sector studies, country studies and macro-economic related analysis. These studies are published in the form of Occasional Papers, Working Papers and Special Publications. The research papers that are brought out in the form of Working Papers are done with swift analysis and data collation from various sources. The research papers under the series provide an analytical overview on various trade and investment related issues.

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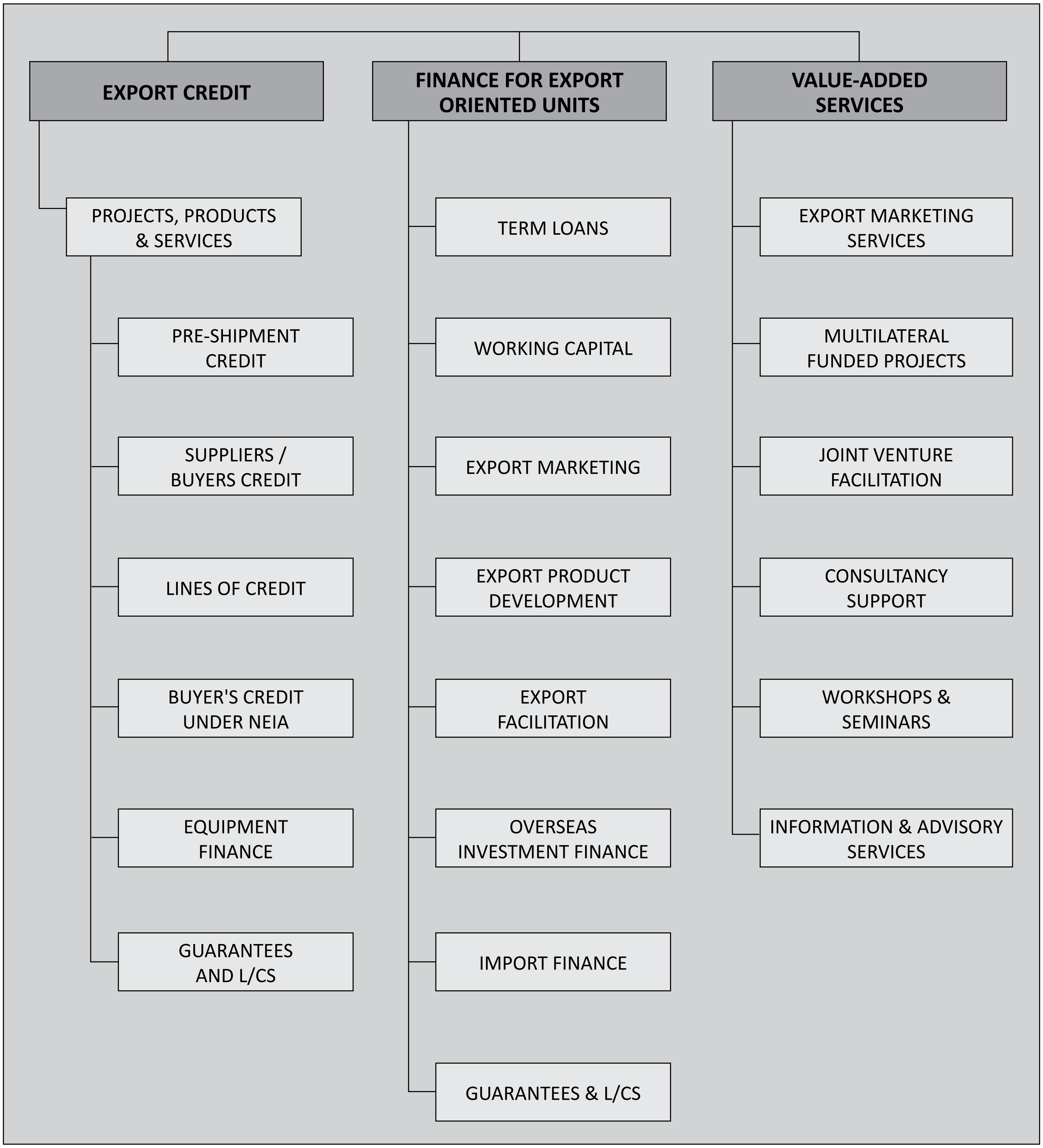

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